Eveready Industries India Limited

Q4 FY24 Earnings Conference Call

April 29, 2024

Moderator: Ladies and gentlemen, good day, and welcome to the Eveready Industries India's Q4 FY24 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishid Solanki from CDR India. Thank you, and over to you, sir.

Nishid Solanki: Thank you. Good afternoon, everyone, and welcome to Eveready Industries India's Q4 FY24 Earnings Conference Call. Today, we are joined by senior members of the management team including Mr. Suvamoy Saha, Managing Director and Mr. Bibek Agarwala, Chief Financial Officer.

Before we begin the call, let me first share our standard disclaimer. Some of the statements that may be made on today's conference call could be forward-looking in nature, and the actual results could vary from these forward-looking statements. A detailed statement in this regard is available in the press release, which have been circulated to you earlier and also available on the stock exchange website. I would now like to invite Mr. Saha to share his perspectives with you. Thank you, and over to you, sir.

Suvamoy Saha: Thank you, Nishid. Welcome to our annual earnings call. I hope all of you are doing well. Eveready has concluded the year FY24 with robust results and significant growth in profitability both at the level of EBITDA as well as PAT.

The top line, however, remained muted due to reasons I shall explain shortly. Before that, let me touch upon the strategic highlights of the year. I will also take up towards the end of my remarks, our thoughts for the coming year. I shall now recap areas of strategy that are important to us and what we pursued right through the year.

Being custodian of the Eveready brand, it is contingent upon us that we sustain the tempo of communication around the products and brand thus very consciously the spends towards advertising and promotional activities have held momentum. To provide stronger trust in this area, we signed on a new brand ambassador, the Champion Javelin thrower, Neeraj Chopra, who embodies the power of our brand among other qualities.

Secondly, we took an important improvement initiative in revamping our route to market in order to modernize the critical strength area of distribution of our company. As we have communicated in our earlier calls during the year, we encountered challenges both from design as well as implementation. These have been identified and actioned upon. We firmly believe that it was a much needed transformation requirement to keep these assets relevant to our times and results should follow shortly in line with our plans.

On this topic of distribution, I must also mention that we used a more diverse set of channels beyond the general trade, whereas we have lagged in this previously. We have moved levers to cover better modern retail, e-commerce, quick commerce and institutional sales. These new channels will play a crucial role in the coming quarters to boost growth.

Thirdly, we augmented our talent bench both through internal developments and external inductions to make a first class team capable of delivering results at levels not seen before. We are a company that is raring for growth, and there are multitude initiatives outlined in order to drive our objectives. I hope to bring clarity to these aspects through this forum.

Without any further ado, let me now share highlights segment-wise commencing with batteries. The previous year saw battery volumes remaining stagnant in volume terms mainly in the traditional carbon zinc category. This was primarily due to weak rural demand. The good news is that Eveready's strong market share position at 53% plus remained rock solid right through this year.

We continue to stay salient as a brand such that our batteries continue to be best identified with the category itself. Whereas we were hitherto underrepresented in the growing alkaline category, the lacuna has been corrected, and I'm pleased to share that our new range of Ultima alkaline batteries has delivered multifold growth, whereas we are still on a small base, the category has vastly improved its contribution to the overall battery volumes.

Stable material prices allowed us to improve margins and we used part of these gains in clawing back for connecting with our consumers. As already mentioned, a new campaign with a new brand ambassador added physique to the brand proposition to our consumers, keeping us relevant as we move forward.

Let me now talk on flashlights. We are the largest organized and branded name in this market. Having taken cognizance of the emerging growth in rechargeable flashlights, we have revitalized our range with new feature rich products in this space. The market is replete with offerings from informal players, supply mispriced and mislabelled products, the emphasis for us is singularly on quality. Our in-house design team continuously produces offerings that compete strongly on feature functionality while staying affordable to our core consumers, particularly in the rural segment.

The market was also impacted by weak rural demand, but we believe that we need to venture into areas where demand should be relatively inelastic. We have started making inroads in hitherto unexplored areas of modern retail, e-commerce and quick commerce. And in the coming days, we will strive to carve out a larger share of our business in this expanding marketplace. While we grew handsomely in the rechargeable segment, the traditional battery-operated flashlights continued to degrow at a fast pace, resulting in stagnant revenues. However, the growth in the rechargeable segment should drive overall growth in due course of time.

Finally, I come to the lighting business. This is a business with few entry barriers, but success here is dependent on quality and trust. With a comprehensive line of products, we are in the marketing with a dual distribution agenda, the general trade, where we enjoy top-tier reach, carries the basic range and takes our brand offering to every corner of the country. In line with our aspirations, we are also making us more relevant to the exclusive lighting network. We are achieving this with a very relevant and sophisticated product portfolio, which is liked not only by our consumers, but also the influencer community of electricians and architects.

The investments in modern retail and other channels, including online are also yielding results. This was a year of industry-wide significant value erosion as all established players passed on the benefit from manufacturing efficiencies to the market. While we grew our volumes significantly, it did not reflect on our top line for this reason mentioned. Lighting continues to be our key plan for growth in the coming years.

Let me now share some insights on our financial performance. We ended the quarter and the year with robust portfolio of growth, achieving growth of 28% and 232% in EBITDA and PAT, respectively, for the year. This reflects our overall initiatives on driving premiumization, continuous innovation, efficiency enhancement and of course, in a large measure, helped by favorable and stable raw material prices. This was achieved despite a much enhanced spends on advertising and promotion at 10.2% of our revenue.

As already mentioned, revenue was stagnant for the year and the quarter due to weak rural demand affecting offtakes of batteries and flashlights and industry-wide price deflation in the lighting market. Revenues were also impacted due to the challenges from a revamped route-to-market improvement initiatives, which are being resolved.

That said, alkaline batteries maintained month-on-month growth momentum following the introduction of the new Ultima range of alkaline batteries, so did the new range of rechargeable flashlights, despite the overall category being affected by continuing degrowth of the traditional battery-operated flashlights. Alternative trade channels beyond general trade exhibited significant enhancement across all product categories.

I will now speak on the outlook as we see it. We estimate rural demand to pick up in the coming year, maybe from the second quarter, the bigger peers in the FMCG industry seem to be having a similar outlook. This should result in volume growth of batteries and flashlights, which was hampered during FY24. Our push for moving towards high-value products and our strong market share position should lead to satisfactory revenue growth.

We are also putting our hopes on getting a high level of growth from the lighting category. We believe the manufacturing efficiencies have mostly peaked and the benefits there from have already been passed on to the market. Hence the value erosion seen in FY24 should not be a phenomenon any longer in the coming year.

All considered, we should have a high-single-digit growth for the company as a whole. We also believe that the first quarter may follow last year's trends, but the growth engine should go to a higher level from the second quarter. The challenges faced from the revised RTM are gradually getting resolved, albeit at a pace lower than what we desired.

We estimate that the revised RTM will start yielding strong results from the second half of the coming year. We also believe that our growth should go hand-in-hand with healthy profitability, we should be improving our profitability, not only in absolute quantum, but also in percentages in the coming year over FY24. We would like to persist with our spends on A&P, however, with a higher revenue, its percentage to revenue may lower itself to less than 10% at high-single digit.

One challenge that needs to be highlighted is the possibility of some adverse impacts coming from raw materials due to the volatile global situation with severe unrest in two parts of the world, commodity prices seem to be moving northwards. However, we are prepared and we have planned for mitigation actions. In sum, I look forward to the coming year with a great amount of enthusiasm, and we may just see one of our better years in all portfolios.

With that, I request the moderator to open the forum to questions. Thank you.

Moderator: The first question is from Khush Gosrani from InCred Asset Management.

Khush Gosrani: Sir, if you could help us to break the sales for the full year between the three categories? And what would have been the volume growth as well for the full year? That would be helpful.

Suvamoy Saha: Okay. So let me give you the revenue share as it stands for FY24. Batteries remained at 64.6%; flashlight at 12.2%; and lighting at 23.2%. So, the overall revenue being closer to INR 1,340 crore, you can make the breakup. With regard to volume growth, as I had indicated, the battery, particularly in the carbon zinc batteries was trending slightly negative at around minus 3%.

We had quite a significant growth in alkaline batteries, which started becoming higher as the year ended. So, the fourth quarter, we ended with about 135% growth, but for the whole year, it was 71%. The lighting is a mix of many types. So, it is difficult to give you volume wise. But overall, LED bulbs grew, consumable luminaires grew, professional luminaires grew. Everything grew by between, say, 20%, and say, 40%. I hope I have been able to answer your query.

Khush Gosrani: And sir, how much you would attribute the current slowdown in the revenues to the changes that we have made in the RTM aside from the rural demand not being there?

Suvamoy Saha: So, it's very difficult. I don't think we have been able to put a specific number. But maybe you know, with the rural demand being weak and with the value erosion that took place in the lighting market, which made the results lag, maybe we would have got a 3% - 4% growth if the RTM challenges could be made by us at the appropriate time. So, I would say about 3% - 4% could be, it's very difficult to say with a very specific number.

Khush Gosrani: Got it, sir. And how confident are you that from Q2, you could see the growth bouncing back as you had highlighted right now? Because I could see also, you're confident in Q4, but given the current situation….

Suvamoy Saha: Yes, yes. So, at this stage, the ground conditions have not changed all that much. We have an expectation that once the elections are over and there is a good monsoon, we feel that rural demand could see an uptick. And the same sentiment is being expressed by many of the, I would say, larger peers also. So as I said in my remarks also the value erosion seems to have peaked out. So, we feel that from quarter 2, we should be seeing a very decent quantum of growth and certainly from for the second half.

Moderator: Next question is from the line of Bhargav from Ambit Asset Management.

Bhargav: Sir, my first question is on the alkaline battery. Now that you have seen a very strong growth, is there any capex which you are planning to put up capacity here?

Suvamoy Saha: So Bhargav, thank you. Thanks for the questions. So, we are contemplating. We have not fully decided yet. But maybe if we see the present trends, you would perhaps be encouraged towards the end of the year or somewhere around that to contemplate putting up an installation of our own.

Bhargav: And secondly, sir, is there any update on the BIS as far as the rechargeable battery segment is concerned because the share of Chinese herein is very, very high?

Suvamoy Saha: Yes. Not only the Chinese, also local unorganized players who also do not adhere to the methodology, and as I said, mislabelled, misdeclared kind of claims. So, we expect the new standard to be out within a very short period of time. It is currently going through the printing process as they call it, which is basically correcting all the typos and stuff like that and then putting it on the asset.

So, we feel from the indications that we have received, we, of course, do not control that process. But from the indications that we have received there, it should happen sooner than later.

Bhargav: And lastly, sir, on the alkaline battery is it possible to highlight what is our mix between the high price, high MRP alkaline battery and low MRP alkaline battery?

Suvamoy Saha: It is about 25% to 75%. The value alkaline is about 75%.

Bhargav: On that mix, are we guiding anything, maybe in the next 2 years, 3 years what are we targeting?

Suvamoy Saha: See we have been a late entrant. So, if we are to play the game of alkaline, we need to play by the rules of the leading player who is putting it out at a, I would say, a very low price point. So, as we grow in volume and if we at all come with our own installation, then we will see how to sort of be more sort of competitive in the market. I mean or let us say, more margin accretive in this particular category. At this stage, really, I mean, we have been very late in entrance. So, we have to play the game of the leader.

Bhargav: And any price hikes possible in this segment or looks difficult?

Suvamoy Saha: No. So, price hikes certainly is possible and which is why all over the world, people have shifted to alkaline because you have higher margins, etc., at a high price point, which the consumers happily pay. In India, somehow the leading player has played it a little differently, which no complaints, I mean, ultimately, people would play as per their choice.

So we are, to some extent, I have to be candid. I mean, to some extent, we are constrained by that because we are a very small, we have a very small market share at this point of time. In the alkaline segment. Overall, we are still 53% plus. But in alkaline, we are still just about 10%.

Bhargav: And what will be your share in carbon zinc for value and premium?

Suvamoy Saha: That would be 50%-50%. I mean, the premium or maybe I would say, 45%-55%.

Bhargav: In favor of premium.

Suvamoy Saha: Yes.

Moderator: The next question is from the line of Chirag Maroo from Keynote Capital.

Chirag Maroo: My first question is related to the lighting segment. Currently, that we are at the breakeven level and almost going at about INR 350 crore to INR 400 crore top line on an annual basis.

Suvamoy Saha: Sorry, I didn't get your question.

Chirag Maroo: Sir I just wanted to ask, as per your earlier commentary, where you have commented that lighting segment would be reaching a breakeven level on operating at a sales of INR 350 crore to INR 400 crore. I just wanted to know, are we on that trajectory, and we are about to breakeven in lighting segment?

Suvamoy Saha: Okay. You are absolutely correct in that. So, we remain on that trajectory. And this year, we hope to gain breakeven in the lighting business, this year as in FY25.

Chirag Maroo: Okay. And sir, what kind of growth we are expecting in this segment?

Suvamoy Saha: So, we are taking at this stage, given that the growth was completely muted due to the value erosion, we feel that it would be reasonable to aspire for a 20% growth in lighting in the coming year.

Chirag Maroo: Perfect. Sir, in addition to this, I just wanted to know what kind of distribution reach we have reached in this lighting segment and what is your target to reach for FY25 too?

Suvamoy Saha: So, you are saying that how much turnover did we reach in FY24?

Chirag Maroo: No, sir. I'm asking distribution reach, like the number of outlets?

Suvamoy Saha: Distribution. Sorry, sorry. I misjudged your question. So, we are on the generic, the electrical outlets, which we access through the general trade exceeds 200,000. But those are very small shops in the rural side. On the urban side of distribution, where we are putting more focus, our current reach would be around, say, 10% 12%, which we aspire to bring up to 25,000 during the current year.

Chirag Maroo: Okay. Apart from this, sir, as earlier participant also asked related to the BIS norm. I just wanted to get a clarification, what kind of market size is of unorganized in lighting, flashlight segment at this moment. And as we are focusing a lot on rechargeable flashlights, what are the actions we have taken, which can let us understand that we are moving in the right direction, and this is the kind of market we are going to tap in the next 3 to 5 years' timespan?

Suvamoy Saha: Okay. So, the total estimated market size because there is no tracking mechanism like Nielsen that we have in batteries. We estimate market to be around between INR 1,200 crore and INR 1,400 crore at consumer price level.

Suvamoy Saha: So, as I said that we do not have tracking mechanism like a Nielsen report as we have in batteries in the flashlight segment, because the play is so much of unorganized participation in this particular market. So, we estimate it between INR 1,200 crore and INR 1,400 crore at consumer price level. We are about 20% of the market, and I would keep another 5% for others, all other brands together. So, the market for unorganized play would be something around 70% to 75%.

The BIS is, as I said, there are two aspects to it. One is the standard getting formalized, which will happen as I sort of responded to a query earlier, that will get perhaps formalized within the next few days. However, what is more important is once that standard gets formalized, it is made mandatory by the government. That takes some more time. That will take some more time. I am unable to give a time, because this is really not in our control. We have to make a good case for the organized industry to the government for it to make that mandatory.

Like today, there are a lot of products which are under that mandatory certification. For example, battery is mandatorily certified. So similarly, we are aspiring to get the same thing done for the flashlights market.

Chirag Maroo: Okay, perfect. And sir, early update on capacity expansion or any kind of infusion that the promoters will bring in?

Suvamoy Saha: So, as I said, the capex that we could be contemplating, we have not yet made up our mind, we have abundant capacity both in carbon zinc batteries and flashlights. So, the only capacity we could contemplate towards the end of this year is making our own installation of alkaline.

Chirag Maroo: And sir, what is our asset utilization?

Suvamoy Saha: Current asset utilization is, I would say, about 80%. But if we employ more manpower, we could make that capacity even higher. So, we are completely today okay with our capacities for batteries and flashlights.

Chirag Maroo: Okay. And so sir, just last question on competition. I just wanted to understand, on e-commerce platforms there are multiple other competitors also coming into picture now, apart from the large players like Nippo, Eveready and somehow in alkaline we can say Duracell too. I just wanted to know, is there any kind of a heat related to competition taking place due to e-commerce at a distribution channel?

Suvamoy Saha: Is there what taking place?

Chirag Maroo: Competition. Competition heat, like someone is coming up and we are trying to gain more market share and people are now shifting from general trade to e-commerce for more buying, for battery per se?

Suvamoy Saha: Yes. So, as you know, e-commerce is still a small quantum of the total market. However, as you rightly said, the growth in e-commerce is much stronger than in the other channels. However, e-commerce is a place where all players have the same kind of what shall I say even playing field where they put their financial might and their advertising might to gain share. So, we would also do the same. And so would be so many other players, including even unbranded ones. So, I mean, we have to play by the rules of that game. I mean, there is nothing that we can shy away from.

Moderator: Next question is from Bharat Sheth from Quest Investment.

Bharat Sheth: Just coming back to the carbon zinc battery. So, I mean, decline was around 3% to 4%. Is that correct understanding?

Suvamoy Saha: 3%, yes.

Bharat Sheth: So, what rate the industry is declining?

Suvamoy Saha: So, it is by and large, I mean we had a value erosion in the carbon zinc, I'm sorry, the value erosion was only 1.5%. We also declined by that. Volume erosion was a little higher at 2.5%. But it is all players suffered the same fate. And the very fact that we held on to the market share at 53% share proves that similar fate sort of we know was on all the other players.

Bharat Sheth: Sorry, sir, but when you say that 1.5% decline, I mean, it wasn't rise in 2.5%. Sir, that does not make it 3%. So, if you can give a little more color?

Suvamoy Saha: As I said, just listen me out. Value erosion was 1.5%. Volume erosion because we have a bias to -- I am talking of ourselves. We have a bias towards going for more premium products. So even the volume degrew sharper at 2.5% to 3%, we arrested the value erosion only to 1.5%. That is what I wanted to say. And the same state of value erosion and also perhaps volume erosion was also similar with the other players because our market share position remained the same through the year at 53% plus.

Bharat Sheth: So how do we see now going ahead this erosion has, I mean, been arrested or still, I mean, there is?

Suvamoy Saha: As I mentioned in the earlier part of that, this is a more rural product. And so, it got affected due to the weak demand, which you have -- I'm sure you are reading in the newspapers and in all the calls that other companies are making, the FMCG ones. So, we feel that with the demand situation changing a little bit, plus we also had a little bit of our own internal challenge of the transformative exercise that we undertook, the new route-to-market.

So, we don't think that this is something that will continue in the future. But battery as a category has low-single-digit growth profile, and that is something that we are also sort of making sure that we would at least get that in the coming year.

Bharat Sheth: Okay. And coming back again then into -- so how do we see these alkaline battery market growth, one is on the premium for our company and premium and non-premium side?

Suvamoy Saha: So, there are two segments in the alkaline side. One is the value alkaline and the other is the premium alkaline. Obviously, we would like to sell as much premium as possible. However, market naturally once they're used to a value product, they like to do that till they have enough familiarity with a product category.

So, I think we are, for the moment, quite sort of -- we have understood that the value alkaline is going to be the dominant segment for still some more time to come. We only have to now make sure how to make our margin profile a little better despite the reality of value alkaline being the predominant type in the -- this particular category.

Bharat Sheth: And what rate -- I mean, last year, of course, growth was phenomenal. So, what kind of rate do you expect for our company to grow? And what is the -- how do we want to play differently than the competitor?

Suvamoy Saha: So, number one, we are banking on a 2x growth for the current year from the -- as I said, we are on a small base. So, we plan to grow 100%.

Bharat Sheth: Okay.

Suvamoy Saha: The strategy for us to grow is, of course, make sure that we become very active in retail in this particular product, which so far, we were not because we did not have this particular range, which we have just now newly launched. We are making a big effort in terms of communication. I do not know whether you have been exposed to that, whether through holdings in large towns or through TV, taking on a brand ambassador, we are sort of making all efforts to make sure that the consumer also keeps us in reckoning when he considers an alkaline purchase.

So, if we can persist with these efforts and given our size of distribution, given our overall predominance in the battery segment, we are quite confident that alkaline is something that also we would come to a much, much higher share of the market in the days to come.

Bharat Sheth: Okay. So how do we see, sir, our growth in -- and do we have any other aspirations to leverage our kind of a rural reach as well as, I mean now urban side, we are working on it. So, any new SKU, do we have any plan to introduce?

Suvamoy Saha: So, we are, at this point of time, because of the challenges that we faced last year, we were internally thinking maybe around this time or 6 months from now, we would be contemplating a newer category beyond battery, flashlights and lighting. However, that goal post we have shifted by 12 months because we need to consolidate our present businesses.

So, our focus is going to continue to hold on to the market share and maintain our presence in carbon zinc, steadily enhance our presence in alkaline, try to limit degrowth of battery-operated flashlight, rapidly grow rechargeable flashlight, through all I would say innovative product offerings to the market. And obviously, as I said, that we aspire to grow 20% in the lighting segment, leveraging our presence in general trade and also latching on to the exclusive electrical outlets.

Moderator: The next question is from the line of Darshika Khemka from AV Fincorp.

Darshika Khemka: I was referring to the fact that you mentioned, we would expect to make INR 1,500 crore of revenues for FY24. And this will be driven by higher growth in the flashlight and the lighting segment. But for reasons, we have not been able to achieve that. And we are guiding for a high-single-digit growth in FY25. And on the basis of FY24, that is much below INR 1,500 crore.

So, does it mean that you're revising down our revenue guidance? And while we have made like phenomenon revenues, phenomenon profitability, do you see that you would want to revise upwards your profitability guidance? Can you just sort of highlight that?

Suvamoy Saha: So, Darshika, thank you for reminding what we would have mentioned in earnings call, maybe 1 year back because over time, we had moderated that aspiration, seeing the ground realities of weak demand and the value erosion that was taking place in the Lighting segment. So, I think in the earnings call of second quarter onwards, second, third and now in the fourth quarter, we have consistently guided for much lower than the INR 1,500 crore, which we started with in the beginning of the year, FY24. So that is one.

Number two is that with regard to -- so now we are on a base of about INR 1,350 crore odd. So, we have to look from this point. I mean, no point in thinking of what we had aspired 1 year back. The fact is for reasons which I think we have articulated over the last -- at least the last 3 earnings call, we are now at a base, which is around INR 1,350 crore odd.

So, we have to look at growth from here. So, we are today, again, taking cognizance of the ground realities, some of our internal challenges, and we are guiding for, I would say, a high-single-digit sub-10% growth. So, the thing is that we are still holding on to our double-digit EBITDA aspiration, which we delivered last year with a vast improvement in the profit after tax. And we hold on to that aspiration of double-digit kind of EBITDA margin for the coming year, with improvement also in profit after tax.

Moderator: Next question is from Mithun Aswath from Kivah Advisors.

Mithun Aswath: Sir, just wanted to understand, out of the INR 1,350 crores, could you give us a breakup between the three segments for the full year? And within those segments as well, in the batteries, if you could give between alkaline and carbon zinc; within the flashlights, the rechargeable as well as the chargeable, this would be useful?

Suvamoy Saha: Okay. We had answered part of this in the earlier part of the call, but I would at the cost of repeating, say this again. So, our overall mix of turnover is like this, 65% batteries, flashlights 12% and 23% lighting. Of that -- of the batteries, about 90%, 94% is carbon zinc, 6% is alkaline, and of the flashlights, about 60%-40% is battery operated versus rechargeable.

Mithun Aswath: 60% is battery-operated, sir?

Suvamoy Saha: That's right. And that is the one which is degrowing, and that 40% is slated to grow. So, we would very shortly see 50%-50% and then the mix changing towards the rechargeable flashlights.

Mithun Aswath: Got it. And just a follow-up on this. Since 94% of the batteries is in a low growing segment and the 6% is where you're seeing the growth. So, we will face challenges on overall growth, right? Because it's only when the alkaline comes to a certain stage where it becomes a reasonable part of the overall batteries are you going to see overall revenue growth for the company. Is that correct or?

Suvamoy Saha: So, battery traditionally grows at around 4%, 5%. This year was an aberration due to the rural side of it, I think we have spoken enough. We did not grow. We actually had a slight deflation. Alkaline is where we are going to grow much beyond what we would -- what one could normally consider. So, as I said, we would like to grow 100%. So that 6% will become maybe 10%, 12% in the coming year. So, we are still feeling that it should be quite all right for us to grow at 5%, given the very high share of carbon zinc in the mix. And that is how we are making our budgets and plans. That is a reality. I mean we cannot go away from that.

Mithun Aswath: Understand. And in the rechargeable flashlight segment, is that growing reasonably well or that has also seen some pressure?

Suvamoy Saha: That has a growth of about 10%. So, see, the first is that we have to come up to a particular size. As I said, the combined market share is about 20%, 21% for us. So obviously, one part of it is degrowing sharply, which we need to arrest to the extent possible. But I mean, it is not really in our hands because if the consumer has decided that it is better for him to go for rechargeable, we have to play the game accordingly.

We have really brought in a slew of products. We have really and we will continue to do so. We are going to communicate. So, we feel that we will grow much faster than the market, even given all that, the degrowth of battery operated and the growth of rechargeable, we estimate that we will be growing between 10% and 12% in the coming year in the overall flashlight segment.

Mithun Aswath: Right, sir. Sir, just one last one. On the margin, we've seen zinc prices also move up over the last quarter, while the last year was reasonably okay. Do we face challenges because I think even in alkaline, zinc oxide is required for manufacturing. So just wanted a sense on that, how you see margins because that's your largest category? Do you see pressure on margins in the next couple of quarters? Or have you taken any price rises to offset that?

Suvamoy Saha: One is how we manage our raw material. So, I think we tend to take coverage so that we can plan things better. And if, let us say, that becomes a reality because I have also indicated in my opening remarks, I do not know whether you had a chance to listen to that. We think that there is some amount of volatility that's going to take place in the commodities which we have already started seeing. If that happens, we have a decent period of time to plan things and to mitigate that.

And obviously, the only mitigation would be that we take price increases, for which we will have adequate time. So, we are not really unduly concerned with that. I mean we have to in some parts of any time live in a high inflation period and sometimes be happy with some deflation taking place like it happened last year.

Moderator: The next question is from the line of Priyankar Sarkar from Square 64 Capital Advisors.

Priyankar Sarkar: A couple of questions. Could you please break up the EBITDA margin of the battery business?

Suvamoy Saha: EBITDA margin of the battery business, meaning what?

Priyankar Sarkar: Meaning segment wise. Sir, the lighting business is about to breakeven. So, I wanted to know for 65%

of the business, what is the margin we are earning on that part?

Suvamoy Saha: So roughly, I'll tell you, roughly about 15.5% is batteries. About 9% is flashlights, and lighting is slightly negative. I mean towards breakeven.

Priyankar Sarkar: Right, sir. Okay. And sir, could you also please give an update on the court case please? Because last time you sounded pretty positive but there's been no commentary thereafter from your end. So just wondering on that, please?

Suvamoy Saha: I'll request Bibek to update you on this.

Bibek Agarwala: Yes, sure. So, the case, which is there for the KKR, I'm sure you are asking for that case, right? So, the matter is still adjourned as of now. We expected that matter should close. Now as you know, this matter is not at all KKR. KKR to it has gone to InCred and InCred has now handed it over to some other finance company. So now we are awaiting date. I think July is going to be our next hearing. So, it is the status as of now.

Priyankar Sarkar: And I have 1 last follow-up question. So, if we had to put up a capex of our own for the alkaline part of the business, what would this 15.5% margin move up to once it reaches -- I mean, a good utilization level?

Bibek Agarwala: So, it is very subjective at this point of time. The machines are of big size, right. It started with 300 million to 400 million pieces. And currently, if you are seeing, we are sitting around 40 million to 50 million. So initially, the focus would be to stabilize the product. And of course, there will be a cost benefit just to tell you, if I start manufacturing, there will be for the alkaline part of the operation, 8% to 10% the margin will improve for the alkaline part of the operations, but you know alkaline is 6% to 8% of the total operations, right?

So, you can get it out that more and more alkaline increases. So, once we start doing the domestic manufacturing 8% to 10% margin will improve for the alkaline part of the business.

Moderator: Next question is from the line of Saket Kapoor from Kapoor Company.

Saket Kapoor: Sir, firstly, we see the employee cost as a percentage of sales still hovering higher. So when you are alluding to the fact that going ahead, we are anticipating good numbers in terms of revenue and profitability for the current year? So what should be the employee cost as a percentage of sales should be pressing in for the year now?

Suvamoy Saha: Bibek, would you like to take that on?

Bibek Agarwala: Yes, sure. Sir, you are absolutely right. But if you could see that from the last year to this year, our revenue remained stagnant, right. So what is the growth you see. It is basically the inflationary growth got to the employees.

So now since we are looking for this year, the current year, certain high to single digit growth, we would like to see not to exceed this percentage right. If you see, we are hovering around 12% and ideally would like to remain equal to a lower than that percent for the FY25.

Saket Kapoor: Okay. And sir, I think so Bain & Company were given a project on the basis of which some benefits over the long term were to be accrued to the company. So where are we in terms of the implementation? And when are we going to reap the benefits, if any?

Bibek Agarwala: Again, I think a lot of conversation as Suvamoy has already spoken about RTM, what the project Bain & Company has taken over is the RTM. So it will be quite long term, like whatever the implementation learning and the challenges we had we are just yet getting out of that maybe by the next quarter, we'll get it out. And I think after that, we'll start getting the benefit. I think this is the discussion we have.

Saket Kapoor: Right, Just Mr. Saha, you are thinking on the fact that from second half, we will be anticipating good growth going ahead. So the two factors on the basis of which you are seeing growth are monsoon and this BIS standard being implemented or what are the factors which is giving you the confidence that things are going to be much better from second half?

Suvamoy Saha: Okay. So one is that we expect the rural demand to sort of have an uptick, that is first and foremost. The second one is that by, say, the second quarter end, we would have really ironed out all the challenges that -- or the different difficulties that we faced with the RTM.

So any drag whatsoever that we had from the RTM would be also not there. Plus, the value erosion of the lighting segment, which was highly prevalent during this FY24, in our estimate, also should not be there.

It is still there a little bit in this quarter. But from second quarter onwards, we estimate, but of course, it is very difficult to say if there would be, again, another breakthrough, which will be passed on to the market. At this point of time, we are not seeing that. So based on all these factors, the demand, our RTM, the value erosion being arrested all of that will culminate in a higher level of growth in the second half.

Saket Kapoor: Okay. But there has to be that a volume-led growth, not only value led. It has to be volume-led only then only it will translate.

Suvamoy Saha: Saket, this year also which you are not being able to see, we have very reasonable, and I would say, satisfactory volume growth in the lighting segment. Unfortunately, that got completely eroded due to the value erosion, so I take your point. It has to be volume led, not just price increases.

Saket Kapoor: Right. A small pointer, first, we would like to congratulate the Board on the dividend declared for -- I think it's a high test of 5 years after which investors' interest have been looked into with a dividend payout. So that gives a clear indication of the wealth creation being the outlook for the Board. So I congratulate the Board for this decision.

And one bookkeeping question, we have seen there's a difference of income tax also to the tune of INR 10 crore, if you could explain what is our current tax rate, tax out go? And if you could explain the reason of this INR 10 crore nature, any other assessments are due wherein we will be receiving cash going ahead?

Bibek Agarwala: So currently, we are under the MAT, okay. So because we have an Assam plant where we have 80-I benefits, so we are currently under the MAT. So rate hovering between the 16% to 18%. And this is the refund pertaining to 2021 where we have paid the advance tax and that particular year, we have taken certain write-offs. So that is the refund we got the current year. So INR 23 crore we've got the refund and there are some current year taxes. And so net, you are seeing INR 10 crore. So that is the refund here.

Saket Kapoor: Right, sir. Thank you for all the feedback. And for the forex impact, I think so earlier we used to highlight what was the forex impact. So if you could just give color on how the forex behaved for this quarter and for the year as a whole?

Suvamoy Saha: Forex pretty remained steady. If you see INR 83 to INR 83.5 this remained very steady. And we are like taking a very long-term coverage, not a very long term, 4 to 5 months coverage we are taking because it goes hand in hand with our zinc coverage also. So we are keeping a very close eye, but dollar was since pretty stable over a period of last 6 months to 8 months. So we did not have much adverse impact because of that.

Moderator: Next question is from Rajiv Gupta from RBC Financial.

Rajiv Gupta: My question was on the RTM transformation. Are we now very confident that we are done with it in this first quarter, we are already into the end of April? Are we almost there? Are we 99% there? Or is there a risk that we come back next quarter to hear that our RTM transformation is going to further take away another few quarters? Where do we stand on the RTM quarter? That was my first question on the RTM transformation.

Suvamoy Saha: So I wish I could give a specific percentage. Unfortunately, I cannot. But I think it would be safe to say that by the second quarter, we would have ironed out all the, whatever we call it, pitfalls or challenges, whatever disruptions that we have faced, all those would be ironed out. And so the RTM would start being rich dividends from the second half. That is at this point of time because there is -- of course, our internal target is to iron out everything in the first quarter itself, but I don't want to sort of commit on that to you for the simple same reason what you mentioned that in the next earnings call, you should not hear of another extension.

Rajiv Gupta: Okay. My second question was that assuming that all the lighting issues and the RTM gets sorted out, what is the company's aspirational CAGR growth plan for the next, say, FY25, FY26 onwards. What is the company's aspirational growth plan, considering battery where battery is, lighting is, I'm talking about a 2-3-year perspective starting first April, FY26?

Suvamoy Saha: I think what would be safe to assume a 5% kind of growth in batteries as a total category, 10% to 12% in flashlights and 20% in lighting. This we can see for at least forthcoming say, certainly FY25 and maybe 2 more years. That is how it looks like to us at this point of time.

Rajiv Gupta: And on a current base, what would be that turn out to be in terms of a weighted average?

Suvamoy Saha: So I would say that given that we are at around, say, INR 1,350-odd crore, I'm taking rounded numbers, I would say we would go on to say about INR 1,800 crore in the next 3 years on these three categories, including FY25.

Rajiv Gupta: So that makes -- including FY25. Are you talking 3 years or 2 years?

Suvamoy Saha: Yes, 3 years. FY25, FY26, FY27.

Rajiv Gupta: And FY27?

Suvamoy Saha: Yes.

Rajiv Gupta: Okay. One last question. Transformation on the KKR loan has not been forthcoming. About two quarters back, you were very confident and sure that it is about to end, we should have some news in March. Now we just get to know it's a bland statement by the management that it is adjourned. I'm sure you have a better idea, at the end of the day, this is a shareholder issue. You should really have a little more information on the status of this arbitration.

It normally doesn't go on this long. One does hear that the formally the former promoters are planning to retire the loan. There are negotiations on. Some of them have come out of their financial trouble. So why don't you for information a little more crisp clear communication on this to the shareholders?

Suvamoy Saha: I'll give you, unfortunately what you termed as bland is what is available on public domain, and we can only obviously would appreciate on an earnings call, we can only provide information which is in the public domain because all of that is not controlled by us. So the arbitration panel has set up a time line whereby they set various dates for various activities. So the final hearing is slated for a particular date in July, I forget that date.

However, in between, again, this is public domain information. The originally what was KKR was bought over at a fraction of the cost by a company called InCred, and then in turn, bought over by another company called Real Touch or something like that, I forget the exact name. So it would be for this new incumbent to decide how he wants to sort of see things pan out, we maintain as we have maintained before the arbitration panel that Eveready's sort of liability in this is 0.

We played no role in the facilities being provided to the erstwhile holding companies nor were we aware. So our stand is clear, and we believe that we have a clear case, and we'll see how it plays along. But it is possible that it may come to some settlement because people still try to -- after all, it is going from one lender to the other. Hopefully, some settlement will take place. Otherwise, July remains the final date of hearing.

Rajiv Gupta: July remains the final date. Okay. Good to hear. Now my last question on INR 1,350 crore to INR 1,800 crore, we are talking about RTM are getting settled. If I make a simple mathematical calculation, INR 1,350 crore goes at 10% or high-single-digit goes to INR 1,500 crore, INR 1,650 crore. Here talking growth, high-single-digit and about 9%, 9.5% if I compound it for 3 years?

Suvamoy Saha: Yes.

Rajiv Gupta: Then what you are saying is that our aspirational growth remains single digit for the next 3 years after having spent all the time and money and effort on our RTM and our RTM becoming operational, fully operational this year, but we are still talking about single-digit growth?

Rajiv Gupta: I'm just doing it mathematically. This is just a math. You are still talking about INR 1,800 crore 3 years from now?

Suvamoy Saha: Yes, yes. What you say is right. We are talking of a 10% overall growth, right. Whatever may be the individual components of 5%, 10%, 12% and 20%. We have all along said and we have just shifted that goal post because of all the challenges that we have always.

Rajiv Gupta: I appreciate. I'm starting with the INR 1,350 crore base now. I'm not going back to...

Suvamoy Saha: No, no, just hear me out. We have all along said that for us to reach a higher level of turnover at some stage during our journey in the course of the next 2, 3 years, we have to look at new categories. Now we had very much aspired that we would start planning these new categories sometime around this year, meaning somewhere around FY25, we would crystallize our plans for a new category. But today, the way things have happened, we feel that we first really need to consolidate ourselves in this year and top up.

So INR 1,800 crores in 3 years what we just now talked about is from the 3 categories. There would be a component in which this RTM would be helpful. This RTM is not just meant for batteries or flashlights or lighting, I mean, it should be available to take on other categories. So every product categories have a particular capacity to grow. So we are taking a realistic view, whereby we aspire and do not put aspirations beyond our reach, and we grow realistically, but also keep scope for newer categories to be inducted, which we plan to do.

Rajiv Gupta: Got it. And how far have you -- where have you pushed back the goal post for the next -- for the future categories in terms of hitting the topline?

Suvamoy Saha: So we were quite hopeful that by FY25, we would have plans ready to launch a new category, at least that we may have to shift to the mixed financial year.

Rajiv Gupta: And this would be FY26, FY27?

Suvamoy Saha: FY26, FY27 could be a realistic time when we can think of a new category.

Moderator: The next question is from Keshav Garg from Counter Cyclical PMS.

Keshav Garg: So the performance of the company is disappointing. The guidance of the management is not credible. And sir, your aspiration is also disappointing. So what happened to the doubling of revenue in 4 years from INR 1,200 crore base? I don't know, sir, what happened and I hope that going forward, even this lukewarm aspiration is not under achieved?

And sir, if we see our receivables in the past 2 years have doubled. And sir, the revenues have hardly moved up. I am very doubtful that we still hold the 53%, 54% market share in batteries because if you see our competitors, which are listed at least, their third quarter numbers are available, and they have grown something like 13%, 14% in the third quarter, whereas our revenue has declined. So any comments on these issues?

Suvamoy Saha: So first of all, thanks for all your scathing comments. We have really, as I said, we are not deviating from our end goal of achieving, doubling our turnover. We have only shifted the goal post by 1 year. Even if we had articulated the original doubling our turnover aspiration, we had said that we would require a fourth or a fifth category.

So to say that our aspirations are very disappointing at this stage, I personally do not agree with that comment. But so be it, I mean, you are, of course, free to choose your own opinion. And so we remain on course to -- as we discussed with the previous speaker, we remain on course to achieve at least going up to INR 1,800-odd crore in the next 3 years' time, with very realistic growth targets.

And as I said, we need to bring in a new category, if not to make ourselves to that INR 2,500 odd crore, which we had set about. We have just shifted it by 1 year due to multiple reasons, which I think I have alluded enough in the earlier part of the call and also while responding to queries.

Keshav Garg: Sir, I also wanted to understand that now many toys, ACs, everything is being made in India, so the batteries that are going into the toys or the remote of the AC, etc., are we supplying those or are they still being imported?

Suvamoy Saha: Before I respond to that, I think I need to sort of respond to that somewhat high-handed comment about you not believing that 53% market share. It is a public domain information, please go to the Nielsen report and find out for yourself, whether what we said is correct or incorrect. Okay, before you make these kind of comments.

Now with also your observation with regard to other competitors' growth, please also find out whether they grew in the battery segment or they grew in some other segments. I think we have greater insight to that than perhaps in all humility, I say you.

Now coming to the question of all the devices which are there, we supply to everybody and so does everybody in the market.

Bibek Agarwala: To add, I would like to add 1 point. I think he has mentioned that our receivable has doubled up. So just would request you to please go through the schedule of the balance sheet where you'll find the receivable from INR 102 crore has become INR 113 crore. You are right, in the June quarter receivable has gone up subsequently.

And there are several initiatives and effort as to ensure that receivables are under control. So that is the way just to highlight maybe that you are referring to some June number maybe against March. But as of now, the situation is that general trade receivables are under control. And even whatever has increased, it is because of the alternate channels because the alternate channel, the receivable terms are much higher than the general trade. I thought that update will be very useful for you.

Keshav Garg: Our receivables have actually tripled from FY22 end to FY24 end, from INR 36 crore to INR 113 crore. And sir, secondly, if we see our EBITDA, the last year, there were INR 25 crore extraordinary for your consultancy, etc. And if we add that back, there has been no growth or very, very marginal growth less than inflation even in our EBITDA Y-o-Y.

Bibek Agarwala: So I heard from you. So I think when you were commenting, I did not hear it that you were commenting from FY22 because generally, when you are doing the talk, we have always referred from FY23, okay.

And that this period, that was a year of a COVID period. At that time, our 100% sales was on cash. So there is a change of the business parameter which happened because that period, even 2021 and 2022, you see both the years were on cash business. But you are right, whatever the consultancy charges, it was there last year, and it is mostly there current year also.

Keshav Garg: Okay. And sir, I hope the performance of the company improves.

Bibek Agarwala: Yes, sure.

Moderator: The next question is from the line of Chirag Maroo from Keynote Capital.

Chirag Maroo: Just basic few questions. First, I wanted to know what is the gross margin in lighting business?

Suvamoy Saha: So Bibek, would you like to take that.

Bibek Agarwala: Lighting is 35%.

Chirag Maroo: And what is our ad spends for FY24?

Bibek Agarwala: It is similar kind we are expecting in FY25.

Chirag Maroo: Which is around 10 to 12 percentage of sales?

Bibek Agarwala: Pardon. Can you please repeat the question?

Chirag Maroo: For our ad spends for FY24.

Bibek Agarwala: Oh, ad will be in the range of 10%, yes.

Chirag Maroo: 10%. And we are expecting it to remain same in absolute terms for the next year?

Suvamoy Saha: Yes. As of now, yes, because since the revenue base are almost in some lines, when we reach to a major revenue line at INR 1,800 crore to INR 2,000 crore, at that point of time, we may look for a little reduction because that absolute value gives us the strength to do some. But that is why as of now, 10% in absolute value, we are looking for the sale.

Chirag Maroo: Right. And sir, last one, as you have given the revenue mix for FY24. Is it possible for you to highlight for FY23 also?

Bibek Agarwala: Yes. Just give me a second. Yes, FY23, our revenue mix would be 65.4% battery, 12.4% flashlight and 22.2% lighting.

Chirag Maroo: And sir, can I just understand 1 thing. I was under impression that our margin operating levels in battery business was around 17 to 18 percentage. Has that dropped down to 15 percentage for certain reasons? Or it is the actual kind of a margin level?

Suvamoy Saha: No, no, FY23, it was 11.1%.

Chirag Maroo: FY23 EBITDA margins for battery was 11.1%?

Bibek Agarwala: Operating margin for battery was 11.1%, which got improved to 15.5%, mostly due to the material price softening.

Chirag Maroo: Okay. And this should be the expected range for the future, too?

Bibek Agarwala: We hope so as of now. And as you know that Suvamoy mentioned, the way the volatility in the material segment goes on, that is why the battery prices goes up. But as of now, from a material perspective, we are secured for a quite good amount of time. So we are not in a hurry to think on a high cost of material. So in due course, we will take an appropriate call if the cost of materials continuously increases.

Moderator: We'll take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Suvamoy Saha: Thank you, everyone, for taking out the time to join us on this earnings conference call today. I hope we have adequately answered all your questions. If you still have more queries, please reach out to our Investor Relations team, and we will be happy to address them. We endeavor to interact with all of you every quarter through this forum. Thank you once again, and look forward to connecting with you again in the next quarter. Thank you.

Moderator: Thank you very much. On behalf of Eveready Industries India, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.
