



## Eveready Industries India Limited

### Q2 FY25 Earnings Conference Call Transcript

November 13, 2024

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**Moderator:** Ladies and gentlemen, good day, and welcome to Eveready Industries Limited Q2 FY '25 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 this conference 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 Q2 FY 25 Earnings Conference Call.

Today we are joined by senior members of the management team including Mr. Suvamoy Saha – Managing Director and Mr. Bibek Agarwala – Executive Director & Chief Financial Officer.

We will begin the call by sharing the 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 disclaimer in this regard is available in the Press Release document which has been circulated to you earlier and also available on Stock Exchange websites.

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, and a very warm welcome to all of you on our second quarter earnings call.

We at Eveready are custodians of two very valuable assets, the well-loved Eveready brand and a formidable distribution infrastructure. It is the responsibility of the management team that these assets are used wisely to provide value for all our stakeholders and deliver growth in each of our business segments.

On this call today, we will try to outline the underlying opportunities across the businesses and provide an update on where we stand.

In terms of financial parameters, we are stable and our margins have stayed healthy. We also remain optimistic for the balance of the year. Profits have trended well, aided by favorable input costs, but before I share thoughts on the business segments, I wish to cover the highlights of some of our key strategic initiatives.



As mentioned in our earlier calls, the RTM exercise was kicked off by us to streamline our distribution processes, to deliver higher levels of efficiency and also become more contemporary. Such an elaborate exercise that encompassed the entire process of selling came with its share of challenges and risks. We made these challenges over the past few quarters, including the one under review, but now the revised system seems to be on the cusp of yielding results. We expect that the performance gains will become apparent in the coming quarters.

Just as we modernized our traditional general trade channels, we also focused on developing alternative channels where our offerings have seen traction like in modern trade, e-commerce, quick commerce and electrical outlets.

Communication is a core aspect of our growth aspirations. We have set our A&P spends at a pace for consistent consumer engagement. As a consumer facing company, our chief endeavor is to bring quality offerings that are in tune with the times and engage our consumers with this. Our strategy involves a combination of advertising and BTL promotions in order to maintain saliency of the brand and a leading presence in the marketplace.

We have initiated steps to build a manufacturing facility for alkaline batteries in order to support growth aspirations. This is going to be the only alkaline facility in the country at this time and we aim to drive strong gains on quality and cost with control over the production chain.

Our desire to be an innovative brand will draw support from this investment. In order to derive comprehensive benefits of cost and efficiency, we are planning for this facility to be a multi-product facility and eventually other categories will also be produced here.

At this point, let me cover some thoughts on our business segments.

Commencing with batteries, despite some shifts in the market, we are pleased to have retained our robust 53% market share in batteries, underscoring our ongoing leadership in a highly competitive segment. The overall segment saw modest contraction, primarily arising out of weak demand from the rural segment.

However, our diversification within battery types showed positive momentum. Our alkaline battery segment saw an impressive 62% growth in value. This demonstrates a promising trend as consumer preferences gradually shift and we are well positioned to meet this demand with the quality and reliability of our products.

The marketing traction that our alkaline range has seen has been good. This has emboldened us to take the bold step of putting up the manufacturing facility that I referred to a little earlier. Also, the headroom to grow is vast as India catches up to the global trends in terms of per capita usage.

In the Carbon Zinc category, which still services the bulk of the country's domestic demand, we are the de facto leaders in both volume and value. This gives us the right to play and win. Batteries being the dominant contributor to our top line and margins, naturally all possible efforts are made to create strong leverage in this space.

Let me now come to flashlights. I am glad to share that the pace of de-growth in the battery-operated category has abated to single digit. It may be recalled that the level of de-growth was at a much higher number a year ago.



On the other hand, the rechargeable segment is maintaining growth as has been the trend in this category. The battery-operated flashlights have a strong correlation with monsoon. Although not very uniform, the monsoon BCR was somewhat abundant, thereby translating into healthy demand within the target market in rural settings.

The rechargeable flashlights grew on the back of unique and innovative models introduced by us. The introduction of new models with rich feature functionality by our design group as per identified consumer needs is the core of this business. Two new launches during the quarter appeal to the people's imagination significantly. One was called the Siren with a panic button for the vulnerable at times of distress. "*Bheemlite*" is the other one with a differentiated offering designed for farmers who need to keep night vigil to protect their crop.

Backed by these tailwinds, the category had a decent 16% revenue growth during the quarter and 7% for the half year. We intend to deliver a healthy growth for the full year and maintain this momentum. As the leader in the organized space, we aspire to balance presence in both battery-operated and rechargeable categories.

I move forward to the lighting business now. The industry continues to witness price erosion in the consumer segment, particularly in bulbs and battens though at a somewhat reduced pace but still pronounced compared to the same quarter of last year. We have now a respectable lineup of SKUs in the retail market comprising of not only bulbs and battens but also emergency lamps, luminaires and accessories. We are under-indexed in the consumer luminaires space and our focused attention is now being provided to see higher traction.

While we managed to grow volumes in most product types, the overall top line for the business remained muted on account of price erosion. We are confident of seeing significant growth coming in the coming quarters as the base of Q3 last year onwards already captures a very significant part of the price erosion.

The BU team is also focusing on the segment of professional luminaires catering to institutions. Professional luminaires is the higher growth segment of the lighting market and we are under indexed there as we inherently tend to focus more on the consumer side.

However, this being our new thrust area, we will make amends to that. We have assembled a team with the requisite expertise and with the necessary connect to this market. The results have started coming in and though from a small base yet, this segment is showing good growth.

In summary, lighting is an area of focus, and we expect to exceed the year on satisfactory level of growth.

I want to bring a quick review of the Quarter's Results:

We reported revenue of INR362.4 crore during Q2 relative to INR364.9 crore previously. I have already explained the dynamics from the respective categories contributing to this revenue. While the top line is muted, EBITDA and PAT stood strong with significant improvements over the previous year. EBITDA reached 13.2% and 13.7% of revenue for the quarter and the half-year respectively. Similarly, PAT stood at 8.1% and 8.3% respectively. All three business verticals including lighting had positive EBITDA for the half year with batteries at 7% and lighting at 8.6%.

A&P spends for the quarter stood slightly higher than those of the previous years but as per plan. Manpower cost also showed an uptrend at 12% for the quarter as compared to 11.3% of the previous year. This is on account of investments made in



manpower, particularly for the Lighting segment and more specifically for professional luminaires. This will get neutralized as we start seeing revenue growth in the forthcoming quarters. These impacts were softened by initiatives to contain cost in other aspects of the operation and favorable RM prices.

At this point, I would like to share our thoughts on the output for the year. The year is shaping up, by and large, as expected with an improved growth outlook for the second half.

In batteries, we are fully geared to charge ahead with our Zinc, Carbon and Alkaline offerings across distribution channels, suiting the requirements of consumers across price points and needs. One should expect stable performance relative to the past year as we exit the year given the muted situation in the Carbon-Zinc space. The margin should hold as we are covered for our requirements on key input materials.

Flashlights should deliver positive growth on the back of differentiated SKUs that we have launched. Similarly, we shall see healthy accretion to growth in lighting given the many initiatives which I have mentioned earlier.

Overall, we see a year of modest growth for the full year but exiting the second half at far more enhanced levels with a positive impact on margins.

With that, I would like to invite you to pose your queries, which we will be more than happy to answer. Thank you.

**Moderator:** Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Priyank Chheda from Vallum Capital Advisors. Please go ahead. The line for the participant dropped. Next question is from the line of Abhi Jain from AJ Associates. Please go ahead.

**Abhi Jain:** Sir, I have three questions. The first question is, since you are saying that about price erosion started from Q3 of last year and you are seeing or you are hoping for an uptrend going forward in the following quarter, do you see that the revenue run rate will be maintained at the 350, 360 kind of a level for Q3 and Q4 which obviously dropped last year significantly due to the price erosion?

**Bibek Agarwala:** So, see, generally our Q1 and Q2 are the big quarters. Q3 and Q4 are generally sub-350 quarters. So, as we have indicated that we will have a growth momentum. So, we will try to be closer to that, but it may not be equal to the Q1 and Q2 numbers.

**Abhi Jain:** But it will definitely be better than Q3 and Q4 of FY '24, right?

**Bibek Agarwala:** Definitely, because that is why we said that all the exercises, RTM, identification, all has been done and that is where growth momentum will come from H2.

**Abhi Jain:** The second is more of a hygiene question on the financials. Now, if you look at your PBT, given that the revenue was flat year-on-year and if you look at all your expense items, more or less they were flat or there were some increases, for example, in our expense. EBITDA growth has predominantly come from the increased end of period inventory that we have. If you look at your change in inventory because that is a big negative number, hence the EBITDA is higher. So, I just want to understand that, I understand that it was a flat quarter as compared to last year, hence, PBT would not have increased, and whatever PBT increase coming is from the increased inventory that we have at the end of the year. In Q3 and Q4, what are the things or what are the levers that you are seeing which will actually, generally help in increasing the EBITDA margin? Because this EBITDA margin is not a real EBITDA margin increase per se. This is just end of inventory increase because of its EBITDA increase.



- Bibek Agarwala:** I did not get your point, you know, why don't you think that is a real margin?
- Abhi Jain:** So, if you see our PBT, right, all our expenses, all the line items, they all are either flat or increased. Now, there is only one line item which is a change in inventory of INR100 crore, right, which is a minus INR16.2 crore. That is, because it is negative INR16 crore, that is adding to your PBT. If you take that out, your ending inventory would not have increased. It is on account of end of period inventory increase, right, because of which it is reflecting through in the PBT. I mean, no other cost lever has reduced. So, year-on-year, I don't see any improvement in any cost lever. Your material cost is same. Finance cost is down a bit. Employee cost has increased by almost 7%-8%. Other expenses are up by almost 10%. So, what cost optimization, where is it showing? I just want to understand that.
- Bibek Agarwala:** So, I think your reading of the P&L has to be, the changes in the inventory is part of cost of material only. It is not that year end inventory, because what happens, you have to see the entire change in inventory along with the cost of material as well. Because sometime you consume from opening stock, sometime you may consume the lesser from opening stock.
- So, isolation, change in the inventory is not real reflection of what is the cost saving. It is not the cost saving that whatever differential you are saying Q2, that this year INR15 crore, last year INR5 crore. You have to see entire three line item of cost, cost consumed, material and the credit line. All three together actually give you cost. This is why we maintain that this period, the profitability improvement is mainly because of the favorable material cost we have. Because this period, our Zinc prices, especially which is a key product for us, is having a much better pricing. That is why we got a margin improvement there.
- Abhi Jain:** So, basically, the RTM, the optimization like what will be achieved from the RTM, obviously that was not probably taken in Q2, given that other expenses and employee benefit cost, etc. are still elevated. Do you see that the optimization from RTM will start kick in Q3 and Q4 or do you still think that there are some few quarters away from that?
- Bibek Agarwala:** I have already told that from the Q3 onwards, the benefit will start reaping on and of course, Q3 starts showing that and Q4 will have the full scale here. So, H2 will have the benefit and what intended objective of the RTM exercise.
- Suvamoy Saha:** And which I might just add, that is not to sort of look at lower cost, but increased efficiency which results in growth. When we started, we never started with the objective of reducing cost. We started with the objective of improving efficiency as a result of which we can spark growth and that is what is going to happen from Q3.
- Abhi Jain:** Just a final question on the pricing in terms of the lighting segment, right? As a retail customer, I have done certain market details and I understand that especially in terms of tubelights, Eveready's pricing is almost 20% to 30% lower than other competitors like Havells etc. So, are you still in market share? Are you still, this pricing is still because you want to gain market share? And do you think that you can increase your pricing in the near term or do you think that it will still take some time for you to charge a more favorable pricing, at least in terms of lighting? So, that is where we are seeing industry whether there is a price erosion.
- Suvamoy Saha:** So, you know, you are right to the extent, the percentage is not correct, You are right to the extent that Philips and Havells, they sit at the highest level on pricing, but then there are a host of other competitors who are, by and large, similarly priced. We are one of them. So, I would say we would put ourselves at number three along with few others. Correct?



**Abhi Jain:** I agree.

**Suvamoy Saha:** So, I don't think that the pricing peaking order is going to change very significantly. What's going to change is that because we are going to offer a significantly higher range of products, our portfolio is increasing, our distribution rate is increasing, we should be able to spark growth. So, as I said in my remarks earlier, that we are under-indexed on consumer luminaries, we are under-indexed on professional luminaries. So, once we get our act together in these aspects of the business, that should give. It is not going to come by increasing our prices suddenly and trying to get, you know, because they are far ahead of us, Havells and Philips.

**Abhi Jain:** So, as a concluding note, I would just like to comment that your distribution strategy is working because most of the retailers and distributors are now placing Eveready's products, especially lighting, and they are pitching those products to the customers. So, I just want to congratulate the management that you have done a good job in terms of ensuring that the distributors and retailers are pitching your products and showing the benefits to the customers, especially in relation to your other highly priced competitors. So, good job on that.

**Suvamoy Saha:** Thank you very much. I just thought I would clarify on that, that we are really sort of focusing on some of the under-indexed part of our business, which should provide us with further levers of growth as we go forward.

**Moderator:** Thank you. Next follow-up question is from the line of Priyank Chheda from Vallum Capital. Please go ahead.

**Priyank Chheda:** Sir, my question is, have you spelled out a segment wise revenue and EBITDA, if in case I have missed out? For H1, it would be helpful.

**Bibek Agarwala:** So, segment wise revenue for H1. Batteries for us is a INR456 crore, flashlight INR108 crore and lighting is INR166 crore.

**Priyank Chheda:** Flashlight is INR108, and lighting is?

**Bibek Agarwala:** INR166.

**Priyank Chheda:** INR166. And on the EBITDA side, sir?

**Bibek Agarwala:** EBITDA side as a percentage you can take. The percentage for H1 will be 17.5 for the battery, 11.5 for the flashlight and 2.5 for the lighting business.

**Priyank Chheda:** So, now, sir, coming to battery segment, the industry dynamics clearly show that alkaline is gaining share with all the macro tailwinds with respect to the higher usage of the electronic products and we are also gaining share. So, in this, if you can highlight further, what different are we doing which is leading to such a strong market share gain? What I remember is a market leader in alkaline battery has launched a value battery which was at the same price of Carbon zinc, so they could gain. What has been the steps taken by Eveready to gain market share in alkaline batteries?

**Suvamoy Saha:** So, it is like this. First of all, I would just like to clarify that the value segment of alkaline is still at a premium of about 20% to the premium Carbon zinc product. So, the cornerstone for our strategy is that we are available in nearly 5 million outlets whereas the value alkaline of the competitor, the so-called competitor, is available only in about 500,000 outlets. So, that makes a difference. We go to every nook and corner of the country whereas the alkaline has still not penetrated that deeply.





Now we still recognize that alkaline is something that is for the future and we have to play in that area. So, we have taken this kind of bold step of putting this manufacturing facility which we have talked about and we have sort of ramped up our distribution to ensure that all alkaline friendly outlets get our coverage. So, that is exactly where we are.

We have not compromised on our distribution or the placement of our Carbon zinc products. So, there is really no clash. There would be some little some little cannibalization here and there, but I don't think that is of any great significance. Where we have suffered this quarter and the half year is that the rural part of our business has gone down somewhat, which we are trying to see how to sort of recoup over the next two quarters.

**Priyank Chheda:** Right. Sir, Carbon Zinc's decline in volumes is also to do with the flashlights segment underperforming. Is that understanding correct?

**Suvamoy Saha:** Yes, it is partly correct. While there are, you know, the rural part used to use a lot of these Carbon Zinc batteries for their flashlights. As they have moved into rechargeable flashlights, obviously they don't need the batteries. But there are other usages.

**Priyank Chheda:** Now, coming to the whole battery segment, which is a market of 300 crore batteries, roughly sold at INR10 MRP. What would be this for a similar metric for alkaline industry?

**Suvamoy Saha:** Come again, what is this 300 crore?

**Priyank Chheda:** So, there are roughly around 3 billion batteries which are sold annually as a industry size which is sold at a MRP of INR10. So, somewhere we come to a market size of 3,000 crore. What would be the same dynamics for alkaline batteries? How many units and what is the average selling price of an alkaline battery?

**Suvamoy Saha:** So, you are talking of the company price of selling to the retailer, to the distributor?

**Priyank Chheda:** Yes, you can say, yes, correct.

**Suvamoy Saha:** So, first of all, volume wise, the size of the Carbon Zinc battery is 3 billion pieces, okay. And at a consumer level it is about 3,000 crore, which is again that if you take a blended consumer price of about INR10 to INR12. These are all very rough numbers. The equivalent of alkaline, the value alkaline particularly because it has a slight blend of also the premium alkaline, that would be higher. That would be something closer to, you know, the consumer level if it is INR22 as I said, the value alkaline. If you look at the company price, it would be about INR15, INR16.

**Priyank Chheda:** And what would be the volume demand in terms of annual sales?

**Suvamoy Saha:** Roughly I would say that, if you see roughly around 300 million against 3 billion. So, volume wise it is still about 10% of the total Carbon Zinc market. And 50% of that goes into OEMs and 50% to the retail market.

**Priyank Chheda:** And OEM, you mean, which industries, sir?

**Suvamoy Saha:** It goes into usages like particularly one prominent one is electronic voting machines, the EVMs.



**Priyank Chheda:** And sir, in terms of this industry size, which is around 450 crore for the value alkaline batteries, how do you see this?

**Suvamoy Saha:** You take the whole alkaline.

**Priyank Chheda:** Sorry, sir?

**Suvamoy Saha:** You take the whole alkaline. I mean, that 450 crore is correct. It also comprises of a part which is the premium alkaline, which sells to the consumer at about INR50.

**Priyank Chheda:** So, now talking about the total alkaline industry segment of 450 crore, how do you see this evolving? Is this industry also growing at 30%-40% where you would be growing because you have such a large distribution strength, you are growing 3x of the industry, how has been the growth? And any particular consumer segments which are witnessing a solid or non-linear high demand growth coming for alkaline batteries?

**Suvamoy Saha:** So, typically, alkaline battery is taken by two types of consumers. One is one who wants to buy higher price products. Typically, richer people who think that if the price is higher, it would mean that the product is better. And another segment of people who are a little more discerning, who take these batteries for higher drainage devices like toys or camera.

So, these are typically the types of consumers who take alkaline batteries and they are obviously in tier 1, maximum tier 2 terms, but not below that. You know that people would be more sort of price conscious and would prefer Carbon Zinc batteries. And because some devices simply do not require alkaline batteries, but if you look at the global market situation, most of the countries show heavy skew towards alkaline. Because you know, as people become prosperous, they tend to go towards pricier versions of the product.

**Priyank Chheda:** On the industry growth, anything that is firing out according to you or is it that your growth is far superior than the industry?

**Suvamoy Saha:** What you pointed out is right. Our growth is because we are just now coming of a smaller base, our growth is about 3x the level of the market. So, the market is growing at around 25%. We last quarter grew at 62%. So, till we have sort of saturated ourselves a little bit more, I see that growth trend remaining similar.

**Priyank Chheda:** Just last question again on, sorry to ask more on the alkaline battery because that's the excitement. On the industry players, anything that you have seen in terms of market share, gains, losses that you can comment with respect to number one player, number two, number three, four? I think the other few smaller players have also started becoming a bit aggressive in terms of their distribution and everything. So, anything on the competitive landscape if you can highlight?

**Suvamoy Saha:** So, as you know, I will just give you the landscape both for Carbon Zinc as well as alkaline because we must not forget that the replacement market of Carbon Zinc battery is still about 94% of the total market. I mean, you must not forget that. Alkaline replacement market, if we ignore the OEM part, is about 6%-7%, right?

Now in the Carbon Zinc space, Eveready is obviously the market leader holding something like 60% share and our two competitors, significant competitors are Nippo and Panasonic. On the alkaline, which is the 6%-7% of the total battery market and we are very excited about that market just as much as you are excited about it and which is the reason why we are putting up a plant. We are still very small. So, in that market, Duracell is the big player because they have been around for a long time,





they have communicated, they have been around for 20 years pushing alkaline day in day out. So, they are about 85% of that market and we have just come to a stage of, I mean, to just cross the double-digit number. So, we have a huge headroom to grow.

**Priyank Chheda:** And any other new player that you have found getting aggressive in alkaline battery other than?

**Suvamoy Saha:** No. So, sorry I did not respond to that part. So, Nippo and Panasonic also do a little bit of alkaline but not significant yet, and no other players, but there are a host of players who also play in the OEM part, like supplying to EVMs and stuff like that.

**Priyank Chheda:** If I can squeeze in one last question on the gross margins which the participants were asking. So, what has happened is over last six months we have seen almost a 400 basis point of margin expansion and I believe a maximum of it has come in the battery segment. And our key raw materials tends to be Zinc and Electrolytic Manganese which constitute almost 60% of the raw materials. So, anything that has gone significantly lower on the raw materials or any price increase that we have taken on the battery side or with the mix changing, our ASP has gone up which leads to also a gross margin gain. So, roughly if you can help us crack down the gross margin gains that we have seen in the last six months?

**Bibek Agarwala:** This is mostly on account of material margin. So, there are very hardly any price change because these are MRP driven markets. So, this is mostly, that is why I was trying to explain to the earlier gentleman who has raised the point on the cost part. So, this is mainly because, you have rightly said, 60% of the component from the EMD and the Zinc and they are little bit softer during the quarter and that is why the gain has been thrown there.

**Moderator:** Next question is from the line of Chirag from Keynote Capitals. Please go ahead.

**Chirag:** I have a couple of questions from my side. One is, is there any update on the KKR arbitration bill?

**Bibek Agarwala:** So, the status remains the same. So, there is no further update on the KKR thing. As we have said that in the past that from the KKR it has moved to some other party called InCred and from InCred it has now moved to some NBFC companies. So, we are waiting for the next hearing.

**Chirag:** Is it possible for you to give a bifurcation of flashlight revenue mix? Earlier it was around 65-35 battery-operated and rechargeable. Has that changed drastically now?

**Suvamoy Saha:** You want the split of the flashlight revenues between the two segments? It is nearly 50-50 for the half year.

**Chirag:** And what is our revenue from the alternate channel?

**Bibek Agarwala:** Alternate channel. The alternate channel revenue for the quarter will be around...

**Suvamoy Saha:** Alternate channel or alkaline.

**Bibek Agarwala:** What did you ask?

**Suvamoy Saha:** You wanted what?

**Chirag:** Alternate channel.



**Bibek Agarwala:** Alternate channel basically constitutes 16% of the total revenue. So, around INR60 crore in the total mix.

**Chirag:** Final, sir, I wanted to have an update on the CAPEX that we are planning for Alkaline. Has the location for the project been planned?

**Suvamoy Saha:** So, we have not yet finalized the exact location. We are sort of drawing between two locations. I think we should be able to take a final decision on this. We are just trying to see which ecosystem serves us better. So, we should be able to take a call by the middle of December or thereabouts. A final decision. While you know our work on machine building and on many other parameter or other equipments has already started and they are in fairly advanced stage of progress.

**Chirag:** So, generally as we said earlier that this project would take a year time after the location has been planned. So, can I say that in H2 FY '26 this plant will commercialize and you can see the revenue started coming in and the benefit or cost saving of manufacturing can come into picture after H2 FY '26?

**Suvamoy Saha:** Yes, I think H2 would be a good you know target to take because what you said is right. We did say that it will take one year from the time we settle on the land. But because we have now progressed quite significantly on the main part of the project which is machine building, we feel that even if we decide by 15th of December, we should be able to go live latest by 1st of October.

**Chirag:** And sir, just the last one from my end. What would be the expected debt levels after the CapEx that we will do? Would it be around approximately about 480-500 crore level?

**Bibek Agarwala:** So, see, as of now if you see our debt levels are INR256 crore and we are continuously reducing. So, we are looking for around INR150 crore debt for this project. So, while the existing debt will be keep reducing as per normal repayment schedule and there will be additional INR150 crore added to that. So, you can fairly see it will be a INR400 crore at a peak.

**Chirag:** Sir, one last question if I can squeeze in.

**Suvamoy Saha:** Carry on please.

**Chirag:** Just wanted a broad thought like we are going to be the only manufacturer of Alkaline batteries after our capacity commercializes. Any scope that we would be doing some kind of white labeling for other players too?

**Suvamoy Saha:** That's a possibility. I mean, we do the same for even Carbon Zinc. So, of course you know the whole premise for the Alkaline plant is to sell Eveready Ultima not make private level business, but it is the part and parcel of any business today. So, of course, we will be open to that.

**Moderator:** Thank you. Next question is from the line of Mithun Aswath from Kivah Advisors. Please go ahead.

**Mithun Aswath:** Sir, I am just wanting to understand, obviously your competitor does not have a plant in India and has continued to grow. I remember in the last con call you mentioned that even after putting up the plant, your margins are not going to go higher in the Alkaline segment. I am just trying to understand the viability of putting up a plant in India. Just wanted your thoughts on that and what sort of return on capital do you expect from that facility?



**Suvamoy Saha:** First of all, I think you might have misunderstood us. Again, the whole premise of putting up the plant is not only will it sort of spark growth in this particular category but also with the objective that it would improve our margins. But I would leave Bibek to answer to that and you know the return of capital.

**Bibek Agarwala:** Today our position is that we import the material from outside and there is a duty impact. Then the importer add a lot of profitability to that. So, when we are manufacturing in India, definitely there will be a very substantial margin gain, especially on the alkaline B2C side. And that is an over objective and of course, any investment has to have a proper IRR and ROI. So, we have taken a fair chance of the very decent ROI, especially for this alkaline project.

**Mithun Aswath:** And just wanted to understand in the battery business also, are we seeing the same sort of kind of the cannibalization which we saw on the flashlight and hence the overall growth does not appear? In the flashlight as well, these other battery segment kind of degrow and the rechargeable flashlights are growing. Now even the battery segment is a much larger part of your business and if you are saying that the Carbon Zinc business is a dying business and the alkaline is where the growth is, but 93% of your business comes from Carbon Zinc, it's going to take a lot of time and effort for you to grow revenues. If you see over the last couple of years, despite your effort, the revenues at the total company level have been quite flat. So, I just want to understand you had very high aspirations of doubling your top line. But I am just trying to understand where are we in that trajectory. You are also looking at a new product line. I just want to understand where we are and do you see a lot more difficulty than what you saw maybe 18 months back?

**Suvamoy Saha:** So, first of all, let us talk a little bit about the flashlight side. The flashlight side, it is quite clear that the battery-operated one has been degrowing for some time. This company did not, for whatever good, bad reason, I mean, there is no point in going back to the history did not enter this and consumers were taking on to rechargeable flashlights. This company did not go enthusiastically into that. It is only in the last two years that the company decided that we need to play in that as well.

So, from a zero level contribution, today we have come to a stage where we are 50% from rechargeable flashlights into the overall turnover of flashlights. This half year and this quarter we grew, as I mentioned, by about 16% and 7% respectively, and we hope that this will be maintained.

The flashlights market has a play of lot of unorganized players. We are also trying to take necessary, as I may, if I may say, action to neutralize because when there is an organized market where there is less bit of tax compliance, then less adherence to metrology rules etc., etc., it becomes a bit of a mixed bag. We are trying to also navigate that particular part. So, flashlights I think is going to remain a growth driver for the company in the times to come.

Now let us come to batteries. I must once again highlight that Carbon Zinc still for the whole Indian market is 94% of the market, right, where we hold 60% of the market. We are a small player in the 6% of the market, which is the alkaline market, and we have just become a 10% plus player in that area. But we identify that with growing prosperity, people will shift to alkaline as it has happened in all other countries.

So, we have taken this preemptive step, if I may say, or let us say somewhat adventurous or, say, aggressive step of putting up a manufacturing facility that provides us with higher level of margins and gives us control on the production chain.

So, we would play in both because there would be price sensitive consumers who would continue to and they don't require the alkaline because we can go into



flashlights and wall clocks and stuff like that which does not require alkaline. We will put alkaline into the hands of the people who can afford to pay higher price and they may have higher drain devices, costlier devices which require alkaline.

So, I think there can be peaceful coexistence. It has happened in most countries. But with growing affluence, people do tend to shift to alkaline and then there is a cannibalization obviously. I mean, a battery is something that people need for their device. They can only use either an alkaline battery or a Carbon Zinc battery. Now, if you are using a Carbon Zinc battery and it replaces that with an alkaline battery, obviously there is no case for the Carbon Zinc battery. But I think, India is still far away from that conversion while there is very, very decent tailwinds behind the alkaline category at this point of time.

So, I don't think overall, see, this year, the problem we have faced is nothing to do with alkaline cannibalizing Carbon Zinc. It has come because there has been very poor off-take right through the half year from the rural part of our business where we have suffered. So, that is something that we are analyzing why that took place and what are the countermeasures that we need to do, is it just a temporary market problem or is it something to do with us or whatever. So, that part is what we are focusing on. It has no reflection on the overall market.

**Mithun Aswath:** But I just wanted your thought. On the Carbon Zinc category, is the market itself declined in the first half?

**Suvamoy Saha:** Yes, it is. As I told you, it declined from the rural part of the market.

**Mithun Aswath:** And the last maybe, I am just trying to understand the trend with the next number. Do you see that even growing at low single digits or do you see it being stagnant?

**Suvamoy Saha:** No, so, if, let us say, alkaline maintains this growth, I think Carbon Zinc is going to grow at very low single digits. This year it has de-grown the first half, but it has come specifically from a geography which is unaffected by alkaline. So, we are trying to sort of understand that particular phenomenon.

One would have understood, let us say there is a lot of alkaline purchase in a particular area and as a result Carbon Zinc has suffered. That has not. In fact, our premium Carbon Zinc batteries have grown. They have actually kept a very decent pace. The pace of growth varied between, say, 4% to 10%, which is very good for us because they are very profitable products, and they coexist with alkaline. The rural part does not coexist with alkaline, and that is where the de-growth has taken place. So, this particular hypothesis is not applicable in the current year's case.

**Moderator:** Thank you. Next question is from the line of Radha from Gargi Investment. Please go ahead.

**Radha:** Sir, my question was, can you please provide product-wise, volume, value and EBITDA number for this quarter?

**Bibek Agarwala:** So, battery you can see for the quarter our revenue is INR240 crore. Flashlight is INR48 crore and INR85 crore is a lighting business. EBITDA percentage is 70.5% for batteries, 8% for flashlight and 2% for the lighting business.

**Radha:** Volumes, sir?

**Suvamoy Saha:** Volumes, they are not sort of, you know, they are different types. In lighting, there are very many product SKUs which are not sort of, you know, you cannot count them and they make no sense by counting them.



**Radha:** For the battery segment, sir?

**Bibek Agarwala:** So, for Q2, battery segment, it is at 316 million.

**Radha:** And flashlights?

**Suvamoy Saha:** And flashlights 4.2 million.

**Radha:** Second question is that we have introduced some new products like Siren torch, mosquito bat, calling bells, etc. So, where are we capturing these products? Under which product vertical?

**Bibek Agarwala:** So, this mosquito bat is under the battery and Siren is under the flashlight.

**Radha:** And calling bells, sir?

**Bibek Agarwala:** It will be part of the lighting, accessory business of the lighting, it could be.

**Radha:** Third question, sir, since there is a lot of correction in the prices in the LED market, so at what level of revenue can we reach break-even on a PBT level?

**Bibek Agarwala:** We have maintained the annual level. We said that INR400 crore is a very good number to become a break-even for our organization, seeing the past trend. And last year we ended up at INR310 crore. We are looking for how can we, this year actually year-end, we are targeting to make it break-even. So, 400 is a good level to do a business break-even for lighting business.

**Radha:** And when do you plan to reach, when do you think we can reach 5% EBITDA margin?

**Bibek Agarwala:** So, first, you know, we have to definitely cross the INR400 crore benchmark and then, of course, if you get that, I think the 5% would be between INR500 to INR600 crore company can easily target 5% plus EBITDA margin.

**Radha:** Just one last question. With current price, when do you think we can reach \$100 million revenue in the LED business?

**Bibek Agarwala:** See, it is not only LED. It is the entire lighting portfolio. What the disturbance has happened, as you know that industry, that every last two years continuously 15% to 20% value erosions are happening. This period also if you see, our lightings are flat despite a very healthy volume growth. Now, over a period of time it is becoming very unpredictable. We have not anticipated that the severe value erosion will happen in this quarter. So, if you see at least, if you ask me at this current stage, it will take at least 4 to 5 years to reach to \$100 million of revenue for lighting business.

**Moderator:** Thank you. Next question is from the line of Priyankar Sarkar from Square 64 Capital. Please go ahead.

**Priyankar Sarkar:** Sir, our reach is close to 5 million outlets, I think as you rightly mentioned in the call earlier. So, sir, why are we not using this superb distribution to launch newer product in newer categories? I mean, honestly, it has been more than 2.5 years since the new management has taken over. And so, by when can we expect to enter, at least indicate to the street, what is the fourth category that we will be targeting? I think the large part of the investor community is actually eagerly waiting to hear this from the management.



**Suvamoy Saha:** So, Priyankar, it is like this. Last two years, we took a very bold initiative of changing our distribution. I mean, it may seem pretty sort of modest to an outsider, but it was a huge challenge internally because it involved the entire ecosystem of our selling personnel, distributors, channel partners, everybody. So, we naturally faced a lot of challenges and we have overcome, thankfully, all of that. And so, we could not focus on these diversification efforts.

Today, because things have now come under control, we are looking at adding adjacent products. We are looking at adding newer categories. We have already started that work. I think it will take us another maybe two quarters before we can meaningfully articulate on the same. But you would see lot of adjacent products being added to our displays.

For example, we have added these mosquito rackets. We have added lot of accessory items in our lighting side. So, similarly, we would keep adding. We would shortly be out with power banks. So, these are adjacent products. These cannot be treated as categories per se. They will add heft to our overall turnover. But we really need to also look at, as you very rightly said, a fourth or a fifth category which we will be able to articulate in the course of the next two quarters.

**Priyankar Sarkar:** Good to hear that from you.

**Moderator:** Thank you. Next question is from the line of Mehul Savla from RW Equities. Please go ahead. The line for the participant dropped. We move on to the next participant. Next question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

**Saket Kapoor:** Firstly, sir, a very small suggestion. If you could provide the revenue breakup between battery, flashlight and the lightning in your press release or in the specific part as a document, that would suffice a lot of our queries. And if you could give that number for H1 also, sir, what is the breakup between, in percentage terms only between battery, flashlight and the lightning? Sorry, if you have given the number. Pardon me for that.

**Suvamoy Saha:** Saket, we note your suggestion. It is a positive suggestion. We actually have been articulating these breakups in this call, but we take your point that we can even articulate it in the press release that we give out. Thank you for the suggestion.

**Saket Kapoor:** Can you give the breakup for the first half, sir?

**Bibek Agarwala:** So, our battery is INR456 crore, flashlight is INR108 crore, and INR166 crore is the lighting.

**Saket Kapoor:** INR456 crore, INR108 crore, INR166 crore.

**Suvamoy Saha:** Absolutely right.

**Saket Kapoor:** And you are looking for closing the year for the lightning segment at INR400 crore?

**Bibek Agarwala:** No, not really. I have not told. I think the point just came to me that where we can have the breakeven as an industry in the standards.

**Suvanoy Saha:** If it is like this, we are currently at a breakeven level, but the previous person who asked the question said that what level you can see breakeven on a sustained basis, to which Bibek answered that it is INR400 crore. He didn't say that this year we are





attempting to go INR400 crore. But for the historical fact, we are breakeven, actually slightly positive even for the first half.

**Saket Kapoor:** And you mentioned about the fact that H2 is generally softer than H1. So, can you explain the key factors that attributes and which categories do generally soften out for H2?

**Suvamoy Saha:** So, H1 has a seasonal pull in the flashlight business and to some extent in the rural part of the battery business, which did not happen this year. But the flashlight business did happen and that generally gives a kind of a little bit of, I would say 5%, 6% or 10% skew to the first half turnover. The second half to that extent is a little muted.

**Saket Kapoor:** And sir, when we look at the finance cost, it is lower significantly and congratulations to the team. Do we have any FOREX impact also in our numbers in the first half?

**Suvamoy Saha:** Not really.

**Saket Kapoor:** These are operational numbers, and the savings will continue for the second half also.

**Bibek Agarwala:** So, you know, saving in the sense, if you see, we are continuously reducing the debt, right, and getting the interest, borrowing at a very cost-effective way. So, that is why more and more we do the debt reduction, the interest cost will automatically come down.

**Saket Kapoor:** And in the next part, sir, you said you will be finalizing the sale by middle of December and when we will be drawing the money for the same?

**Bibek Agarwala:** Similarly, that point of time, because the major things will be required for the machines and all, so probably mid-December onwards we will start drawing the money.

**Saket Kapoor:** And lastly, sir, on the other expenses part, do that line items have any one-off or are those variables in terms of the increased revenue?

**Bibek Agarwala:** So, this is basically other expenses. These are basically advertising and promotions and all other expenses are there. So, these are routine expenses are there.

**Saket Kapoor:** Because that has increased by 10% year-on-year also and Q-o-Q also.

**Bibek Agarwala:** This quarter advertisements is high, so out of INR10, INR7 crore absolute increase, we see INR6 crore is increase in the advertisement only.

**Saket Kapoor:** And lastly, sir, when we speak about RTM coming into play for H2, what can be the increase in margin or the incremental margin that are expected to flow into the P&L when RTM impact benefits will be fully absorbed?

**Suvamoy Saha:** See, RTM will help us to increase the revenue, which is the need for the hour, right? We are currently having a very decent margin, if you see quarter-by-quarter, we are giving a decent margin and of course the way we are doing material hedging. Now, of course the margin may not improve much, but your absolute values will keep increasing as our revenues keep going up, and that is the focus first stage, and of course that whatever will come from the efficiency, it will be coming in there. But more and more revenue will be giving up as a very higher absolute value of the profitability and may not to that extent margin, barring the efficiency factor.



**Saket Kapoor:** And this route to the market is the Bain Capital interesting that we have done earlier.

**Suvamoy Saha:** Yes, they helped us formulating the plans and so they were with us.

**Saket Kapoor:** Thank you for all the elaborate answers, sir, and all the best to the team.

**Moderator:** Thank you. Next question is from the line of Mehul Savla from RW Equities. Please go ahead.

**Mehul Savla:** Sorry, the line got cut earlier, and congratulations on a good remarkable show in a tough market. Sir, I just wanted to check, I was not sure whether you mentioned that the Capex is towards the multi-product facility. So, I just want to check this multi-product will be within the alkaline category or are there any other products also that might come up in that facility?

**Suvamoy Saha:** So, basically this plant is for alkaline, but in order to make it more economically viable, we are also thinking of adding some other product line. Those are not within alkaline. They could be others like even the Carbon Zinc facility because the more you develop scale, you get more efficiency out of sort of with the normal stuff.

**Mehul Savla:** But it will be within batteries only.

**Suvamoy Saha:** We can also do flashlights.

**Mehul Savla:** So, that was the only question. I think everything else is answered, and thanks and all the best.

**Moderator:** Thank you very much. As there are no further questions, I will now hand the conference over to the management for closing comments.

**Suvamoy Saha:** Thank you everyone for taking time out to join us on this earnings call. 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 those. Thank you once again and look forward to connecting with you again in the next quarter.

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

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