

# Eveready Industries India Ltd

Bloomberg Code: EVRIN IN

India Research - Stock Broking

**BUY**

## New Developments to Bring Optimism

Q3FY17 posted revenue of Rs. 3294Mn, which changed (10.2%)/1.6% in QoQ/YoY respectively, not really indicating any major impact due to demonetization. 9MFY17 revenues stood at Rs. 10504Mn, higher by 1.0% as compared to 9MFY16. EBITDA margin for Q3FY17 recorded 10.7%, down by 93bps QoQ and 90bps YoY due to increase in employee spending for their upcoming appliances division. However, other expenses have moderated this quarter by 111bps as compared to Q2FY17. Also, we see good inventory pile-up this quarter most of which accounts for the appliance division. PAT stood at Rs. 352Mn this quarter, up by 37.4% / 65.0% in QoQ/YoY due to tax exemption.

**LED and Appliances to be Key drivers:** EIL is now banking on its LED segment where they have launched new products in the luminous space and is likely to make Rs. 2500Mn by FY18E (management guidance) compared to the current level of ~ Rs. 470Mn, as more of it is expected to come from the retail brand than that of government orders thus giving them the pricing benefit.

In appliances division, they have expanded in the northern and eastern parts of India where kitchen and heating appliances have taken off well along with ceiling fans.

**Introducing FY19E estimates:** We believe revenue to grow at CAGR of 6.4% between FY16-19E driven by LED which is expected to grow at 13.0% because, while LEDs are speeding up, the demand for CFL bulbs is continually reducing. Battery and flashlights are expected to grow moderately at a CAGR of 3.0% between FY16-19E. EBITDA margins are expected to maintain 10.2% levels (+/- 10bps) for the next three years and PAT is expected to grow at 22.2% due to tax exemptions.

## Valuation and Outlook

At CMP of Rs.242, currently the stock is trading at 11.2x EV/EBITDA FY19E; we value the company at 12.1x FY19E EV/EBITDA for a revised target price of Rs.278 representing an upside potential of 15% over the period of next 9-12 months with a “BUY” recommendation.

### Exhibit 1: Valuation Summary (Rs. Mn)

YE Mar (Rs. Mn)	FY15	FY16	FY17E	FY18E	FY19E
Net Sales	12789	13233	13751	15440	16462
EBITDA	1240	1209	1416	1600	1706
EBITDA Margin (%)	9.7	9.1	10.3	10.4	10.4
Adj. Net Profit	489	506	648	870	1045
EPS (Rs.)	6.7	7.0	8.9	12.0	14.4
RoE (%)*	8.0	7.9	9.5	11.9	13.1
PE (x)	36.0	34.8	27.1	20.2	16.8

Source: Company, Karvy Research, \*without goodwill

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### Recommendation (Rs.)

CMP (as on Jan 27, 2017)	242
Target Price	278
Previous Target Price	247
Upside (%)	15

### Stock Information

Mkt Cap (Rs.mn/US\$ mn)	17598 / 259
52-wk High/Low (Rs.)	291 / 190
3M Avg. daily volume (mn)	0.1
Beta (x)	1.2
Sensex/Nifty	27882 / 8641
O/S Shares(mn)	72.7
Face Value (Rs.)	5.0

### Shareholding Pattern (%)

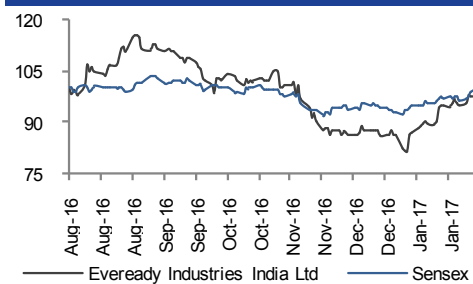
Promoters	44.0
FIIs	12.6
DIIIs	18.7
Others	24.8

### Stock Performance (%)

	1M	3M	6M	12M
Absolute	20	(5)	(6)	(3)
Relative to Sensex	14	(5)	(5)	(13)

Source: Bloomberg

### Relative Performance\*



Source: Bloomberg; \*Index 100

### Earnings Revision (%)

YE Mar	FY17E	FY18E
Sales (%)	↑ 0.1	↓ (1.2)
EBITDA (%)	↑ 1.0	↓ (2.4)
PAT (%)	↑ 11.6	↑ 12.7

Source: Karvy Research;

### Analyst Contact

**Jagannadham Thunuguntla**

040 - 3321 6296

jagannadham.t@karvy.com

**Exhibit 2: Q3FY17**

YE Mar (Rs. Mn)	Q3FY17	Q2FY17	QoQ %	Q3FY17	YoY %	9MFY17	9MFY16	YoY %
Turnover	3294	3666	(10.2)	3241	1.6	10504	10400	1.0
Expenditure	2942	3240	(9.2)	2866	2.6	9349	9323	0.3
EBIDTA	352	426	(17.3)	376	(6.2)	1154	1077	7.2
Depreciation	38	36	3.2	35	7.3	108	105	2.7
Interest	51	59	(13.0)	76	(32.5)	171	237	(28.0)
Other Income	22	20	9.7	18	19.8	62	52	18.8
PBT	286	351	(18.6)	283	0.8	938	787	19.1
Tax	(66)	95	NM	70	NM	106	190	(44.1)
PAT	352	256	37.4	213	65.0	832	598	39.2
EBITDA Margin (%)	10.7	11.6	(93) bps	11.6	(90) bps	11.0	10.4	63 bps
EBIT Margin (%)	9.6	10.6	(107) bps	10.5	(96) bps	10.0	9.3	62 bps
Net Profit Margin (%)	10.7	7.0	370 bps	6.6	410 bps	7.9	5.7	217 bps

Source: Company, Karvy Research

## Key takeaways from concall

**Battery:** Rs. 1000Mn which has been invested for a new battery plant in Assam is in its final stage and is expected to start billing by Q4FY17E. The capacity of the plant is 400Mn batteries/ annum.

**Lighting:** New product launches in the luminous space and flashlights have seen cost reduction.

### Appliances:

- To start expansion of dealership network in the southern regions of India.
- Completed expansion in northern and eastern cities.
- They currently have ~74 dealers and expect to generate revenue of about Rs. 250Mn per quarter in the development stage where kitchen and Heating appliances are seeing good responses.
- Advertisement budget is likely to be kept low this year.
- They have guided 10% tax rate for FY17E.

**Exhibit 3: Financials**

YE Mar (Rs. Mn)	FY17E			FY18E			Comments
	Old	New	% Change	Old	New	% Change	
Net Sales	13744	13751	0.1	15620	15440	(1.2)	Increase in operating costs on account of appliances business.
EBITDA (Rs. Mn)	1402	1416	1.0	1640	1600	(2.4)	
EBITDA Margin (%)	10.2	10.3	(9) bps	10.5	10.4	13 bps	
Adj. PAT	581	648	11.6	772	870	12.7	
EPS (Rs.)	8.0	8.9	11.6	10.6	12.0	12.7	

Source: Company, Karvy Research

## Financials

### Exhibit 4: Income Statement

YE Mar (Rs. Mn)	FY15	FY16	FY17E	FY18E	FY19E
Revenues	12789	13233	13751	15440	16462
Growth (%)	10.9	3.5	3.9	12.3	6.6
Operating Expenses	11549	12024	12335	13840	14756
EBITDA	1240	1209	1416	1600	1706
Growth (%)	36.8	(2.5)	17.0	13.1	6.6
Depreciation & Amortization	320	306	362	376	379
EBIT	920	903	1053	1225	1327
Other income	39	81	81	81	81
Interest Expenses	340	310	371	282	179
PBT	619	674	763	1024	1230
Tax	130	169	114	154	184
Adjusted PAT	489	506	648	870	1045
Growth (%)	260.0	3.4	28.2	34.2	20.2

Source: Company, Karvy Research

### Exhibit 5: Balance Sheet

YE Mar (Rs. Mn)	FY15	FY16	FY17E	FY18E	FY19E
Cash & Cash Equivalents	71	72	110	208	307
Trade receivables	489	705	651	872	752
Inventory	2595	2381	2679	3062	3059
Loans & Advances	349	755	688	772	823
Net Block	7242	7169	7806	7630	7502
Other current assets	211	181	193	216	230
<b>Total Assets</b>	<b>10956</b>	<b>11263</b>	<b>12127</b>	<b>12761</b>	<b>12673</b>
Current Liabilities	2589	2944	3039	3787	3368
Debt	1940	1518	1856	1128	714
Other Liabilities	182	204	205	211	215
<b>Total Liabilities</b>	<b>4710</b>	<b>4667</b>	<b>5100</b>	<b>5126</b>	<b>4298</b>
Shareholders Equity	363	363	363	363	363
Reserves & Surplus	5883	6233	6663	7271	8012
<b>Total Networth</b>	<b>6246</b>	<b>6596</b>	<b>7026</b>	<b>7635</b>	<b>8375</b>
<b>Total Networth &amp; Liabilities</b>	<b>10956</b>	<b>11263</b>	<b>12127</b>	<b>12761</b>	<b>12673</b>

Source: Company, Karvy Research

**Exhibit 6: Cash Flow Statement**

YE Mar (Rs. Mn)	FY15	FY16	FY17E	FY18E	FY19E
PBT	619	674	763	1024	1230
Depreciation	320	306	362	376	379
Net Interest flow	340	310	371	282	179
Tax Paid	(103)	(162)	(114)	(154)	(184)
Inc/dec in Net WC	(440)	186	(92)	42	(356)
Others	(19)	(72)	(81)	(81)	(81)
<b>Cash flow from operating activities</b>	<b>717</b>	<b>1242</b>	<b>1209</b>	<b>1489</b>	<b>1165</b>
Inc/dec in capital expenditure	(323)	(277)	(1000)	(200)	(250)
Inc/dec in investments	26	0	0	0	0
Others	0	67	81	81	81
<b>Cash flow from investing activities</b>	<b>(297)</b>	<b>(211)</b>	<b>(919)</b>	<b>(119)</b>	<b>(169)</b>
Inc/dec in borrowings	36	1673	338	(728)	(414)
Issuance of equity	0	0	0	0	0
Dividend paid	(42)	(86)	(218)	(262)	(305)
Interest paid	(362)	(317)	(371)	(282)	(179)
<b>Cash flow from financing activities</b>	<b>(368)</b>	<b>1270</b>	<b>(252)</b>	<b>(1272)</b>	<b>(898)</b>
Net change in cash	53	2302	38	98	99

Source: Company, Karvy Research

**Exhibit 7: Key Ratios**

YE Mar	FY15	FY16	FY17E	FY18E	FY19E
EBITDA Margin (%)	9.7	9.1	10.3	10.4	10.4
EBIT Margin (%)	7.2	6.8	7.7	7.9	8.1
Net Profit Margin (%)	3.8	3.8	4.7	5.6	6.4
Dividend Payout Ratio (%)	7.3	28.7	28.0	25.1	24.3
Net Debt/Equity (x)	0.3	0.2	0.2	0.1	0.0
RoE (%)*	8.0	7.9	9.5	11.9	13.1
RoE (%)**	37.5	28.1	27.5	28.6	26.9
RoCE (%)*	11.5	11.1	12.4	13.9	14.9
RoCE (%)**	28.7	25.6	26.0	27.0	27.6

Source: Company, Karvy Research, \*with goodwill, \*\* without goodwill

**Exhibit 8: Valuation Parameters**

YE Mar	FY15	FY16	FY17E	FY18E	FY19E
EPS (Rs.)	6.7	7.0	8.9	12.0	14.4
DPS (Rs.)	0.5	2.0	2.5	3.0	3.5
BVPS (Rs.)	85.9	90.7	96.7	105.0	115.2
PE (x)	36.0	34.8	27.1	20.2	16.8
P/BV (x)	2.8	2.7	2.5	2.3	2.1
EV/EBITDA (x)	15.4	15.8	13.5	11.9	11.2
EV/Sales (x)	1.5	1.4	1.4	1.2	1.2

Source: Company, Karvy Research

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: <5%

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Plot No.31, 6th Floor, Karvy Millennium Towers, Financial District, Nanakramguda, Hyderabad, 500 032, India  
 Tel: 91-40-2331 2454; Fax: 91-40-2331 1968

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