Management Discussion and Analysis

INDIAN ECONOMIC OVERVIEW

The economy grew at a 5 year low of 6.8% in the wake of muted demand, mainly arising out of lower agricultural incomes and increased unemployment. Furthermore, high interest rate resulted in lower investments leading to the lower growth. India's GDP growth for the fourth quarter of the year sharply dropped to 5.8%, with exports growth faltering. However, India has the advantage of a large domestic consuming population. The Reserve Bank of India (RBI) has stepped in to gradually reduce interest rates to increase credit flows to spur investments. With inflation by and large under control, factors are conducive to induce growth. Once the policies are in place under the new political dispensation, the economy is expected to achieve high growth rate between 7.5% and 8%, thereby spurring demand.

Although overall sentiments are yet to gather momentum, it appears that conditions do exist for Indian economy to achieve high growth rates. India continues to stand on the anvil of becoming a 'middle income' economy. Its people will continue to experience higher income levels - and a large percentage of its absolute poor will get lifted out of the abyss of poverty. This transition will certainly ignite consumerism. The consumer goods sector in which the Company operates in will be able to derive full advantage from this trend.

CONSUMER GOODS INDUSTRY IN INDIA

India has been traditionally a consumption-driven economy. Broadly categorized into urban and rural markets, the Indian consumer segment is attracting increasing attention from marketeers across the globe.

The growing purchasing power and the rising influence of the social media have made the Indian consumer to adopt a more aspirational lifestyle. India could become the world's largest middle class consumer market with total consumer spends of nearly US$13 trillion by the year 2030 (Source - Report titled 'India Matters: Winning in growth markets' by Deloitte). This sector has grown at an annual average of 11% over the last decade and is anticipated to expand at a CAGR of around 15%. As per latest research by India Brand Equity Foundation, E-commerce market is expected to grow to US$ 200 billion by 2026. Research from A.C.Nielsen has projected that rural India's FMCG market will surpass US$100 billion by the year 2025.

The stabilization of the Goods and Services Tax (GST) is expected to bring down cascading effect of taxes, thereby reducing prices of various essential commodities. The economy will finally turn around -may be sooner than what is indicated by the current data. All these factors, coupled with the fundamental strength of the economy will accelerate consumption to its potential in both rural and urban markets. Hence the outlook for this sector appears quite robust over the coming years.

THE BUSINESS

Eveready Industries India Limited (EIIL) is one of India's leading consumer goods companies, with its products and brands being household names over the past century. Over the decades, it has been the leader in the dry cell batteries and flashlights markets in the second most populous country in the world.

The Company's contemporary product portfolio in the domestic market comprises the following:

- Dry cell and rechargeable batteries under the brand names 'Eveready', 'PowerCell' and 'Uniross'.
- Flashlights and lanterns under the brand names 'Eveready' and 'PowerCell'.
- LED bulbs and luminaires under the brand names 'Eveready' and 'PowerCell'
- Packet tea under the brand names 'Tez', 'Jaago', 'Premium Gold' and 'Classic'.
- Small Home Appliances under the 'Eveready' brand
- Confectioneries under the brand name 'Jollies'

The Company is the largest player in India with regard to dry batteries and flashlights having a market share exceeding 50% in both categories. Its competencies in these product categories are equal to the best in the world. The company continues to leverage its wide distribution network with a range of product offerings in branded tea, lighting and electrical segments.

The Company believes that the Eveready brand is a natural fit to the lighting and electrical category. EIIL, thus, plans to persist in its efforts to be a significant player in these product segments. Towards this objective, additional efforts are being put to align distribution to the needs of this trade. The platform of the Company today is to provide portable power and lighting - and the products as mentioned above are aligned to that platform.

The Company has also forayed into the Small Home Appliance segment to leverage its brand equity for which a dedicated network for distribution has been set up. It also distributes the products through the modern retail channel. While work is in progress to augment the distribution, some of the key electrical products are also being distributed through the electrical distribution network. This category having a low level of penetration, highly fragmented segmentation coupled with a large size offers a good potential for the Company to augment its turnover substantially in the coming periods. Though at a nascent stage, initial market response and results have been encouraging.

The Company has been in the packet tea business historically. Although its share of the packet tea market is limited, the product has traditionally played an important role to sustain distribution in certain areas.

The Company has recently entered into the sugar confectionery segment through the introduction of fruit chew under the brand name "Jollies". The segment is at a very nascent stage.

This makes for a robust product portfolio. EIIL expects to strengthen its presence across these products through increasing value and volumes in the future.

BATTERIES

Industry size and structure

As per Company estimate, the Indian market for dry cell batteries is now estimated to be worth around ₹ 1,600 Crores by value and 2.7 billion pieces by volume. The battery market has few players, out of which EIIL has a market share of 50% between its Eveready and Powercell brands.

The battery category continued to be disturbed by poor quality products imported from China at dumped prices. As a result, the category volume and value both remained flat during the year.

The market segment pattern underwent changes during the recent past as consumers shifted from the more expensive 'D' size batteries to 'AA' sized ones. The shares of the principal battery categories for the last three years are as per the table below:

Percentage of Market (%)*

₹ Crores

Battery category	2018-19	2017-18	2016-17
D	9.3	11.0	11.7
C	0.2	0.2	0.2
AA	71.1	71.2	71.7
AAA	19.4	17.6	16.4
TOTAL	**100.0**	**100.0**	**100.0**

**Data only related to EIIL*

The above is quite similar to the pattern seen globally.

The split of technology within the dry batteries market remained constant with the zinc carbon battery segment virtually dominating the entire market with 98% share. The alkaline battery segment has minimal share of the market at less than 1%. The rechargeable battery segment, which accounts for the balance 1% market share, has remained stagnant, despite having a loyal customer base.

The consumption of batteries is driven by growth in the off-take of its applications. A growing need for portable power and the advent of a number of battery-operated gadgets like remotes, toys, clocks, and torches have catalyzed consumption. Since these gadgets are used on an everyday basis, batteries have enjoyed a non-cyclical demand.

Performance review

During 2018-19, the category turnover was at ₹ 747.2 Crores, 1% higher over the previous year. Volumes remained flat due to heightened import activity in the run up to BIS standard implementation. While AA volumes remained flat, AAA registered growth. EIIL's market share was at 50% and the product mix also remained quite similar to that of the market. The category however, registered a very healthy EBIDTA of ₹ 131.8 Crores during the year, mainly due to favourable commodity prices, fiscal benefits from the manufacturing unit at Assam and overall cost conservation – mitigating the adverse impact of a depreciating rupee. VRS for the Chennai manufacturing unit was successfully completed during the year – thereby leading to a recurring annualized savings of around ₹ 15.0 Crores.

Marketing and distribution

The Company continued to emphasize on strengthening its distribution network. Out of the total FMCG universe of about 8.5 million outlets, penetration of batteries stocking universe stood at around 53%. Eveready batteries were stocked in 70% of such outlets, higher than any other battery brand by a wide margin.

The Company's brand activities continued to add positive qualities to its brand value. EIIL will persist with these efforts to further strengthen its brand salience.

Opportunities and threats

India has a low per capita consumption across a number of product groups, batteries included, indicating an inherent potential for growth. Since dry cell batteries represent the cheapest source of portable power, consumption is expected to increase over time. Besides, growing income levels, changing lifestyles and an increased need for convenience have resulted in proliferation of gadgets run by batteries. These include remote controls, torches, toys, cameras, FM radio sets and portable music systems, among others.

Batteries do not face any immediate threat of usage because these are items of recurring use, providing portable energy at an affordable cost. EIIL has an inherent advantage over competition due to its enduring brand equity, tangible quality and ease of availability due to its widespread distribution network.

Cheap imports continue to be a threat as with the withdrawal of antidumping duty, there has been a steady flow of these imports. However, a new set of standards issued by the Bureau of Indian Standards (BIS) for dry cell batteries has been introduced which would curb imports of such cheap and poor quality products. Moreover, as the Goods and Services Tax (GST) regime stabilizes in the near future, it will bring in higher degree of tax compliance in the country, thereby providing a significant advantage to organized players.

Alkaline batteries, although popular in the West, do not as yet comprise a serious alternative to carbon zinc batteries. This is due to the price-sensitive nature of the Indian consumer. That has led to a mere 2% market share for such batteries, despite them being present for over 15 years. In any case, EIIL does have a presence in this segment and will be able to participate if the market provides any indication of an opportunity.

Given the overall positive scenario, a tangible threat to battery consumption lies in lower usage of battery consuming equipment.

Risks and concerns

The upward volatility of the rupee and commodity prices would put pressure on operating margins which would need to be passed on to the market. These represent areas of concern.

FLASHLIGHTS

The flashlight market is shaped by EIIL because of its dominant market share position at about 70% of the organized segment. At the same time, there is also a vast unorganized segment that is estimated to be almost equivalent to the size of the organized one. Taking that into account, EIIL has a market share of around 35%.

Performance review

During 2018-19, the category turnover was at ₹ 181.3 Crores, representing a marginal de-growth over the previous year. This was due to a flat volume as the category continued to receive steep competition by a large unorganized market. The category however continued to be profitable with an EBIDTA of ₹ 18.6 Crores.

Opportunities and threats

A vast dormant population of non-users represents a large opportunity for the flashlights market. This will continue to be tapped by EIIL in the years to come.

The urban areas, where flashlights are seldom owned, comprise another specific area of opportunity. Vast sections of urban areas now face periodic power cuts and flashlights provide a viable alternative solution during those times.

The category however, faces a continued threat in the form of gray market operations launching lookalike models, usually without payment of taxes and duties. While introduction of GST may make these gray products somewhat less attractive, these may still continue to disturb the market taking advantage of the glitches in law. The only way to overcome this problem is to continue launching new and innovative models.

Risks and concerns

As already mentioned, there is a vast potential of tapping in to convert users to non-users. The risk is that such first time users can take to the gray market lookalike products owing to the cheaper prices. That will result in organized players losing out on this growth opportunity. This problem needs to be tackled through appropriate product offerings and innovative marketing initiatives.

LIGHTING AND ELECTRICAL PRODUCTS

As mentioned earlier, the brand Eveready is a natural fit to the lighting and electrical category. The Company's distribution network in general trade and modern retail has also provided a good platform to enter this category. Further expansion has been made to tap the exclusive electrical trade. The market has now entirely shifted from CFL to LED bulbs. LED bulbs and LED based Luminaires with higher margins now constitute more than 80% of the category turnover. In order to make a meaningful range offering to the market, more products are being added to the portfolio. These include professional luminaires like streetlights, floodlights, downlights, spotlights and panels apart from the existing portfolio of LED bulbs, luminaires and electrical appliances.

Performance review.

During 2018-19, the category turnover was at ₹ 319.7 Crores, lower than the previous year – partially due to certain constraints on supplies as well as unit price decrease in LED bulbs. As a result, LED lights turnover de-grew by 3% over the previous year. However, market prices of LED based lights remained stable as the industry seems to have reached an inflexion point on the product costs. The category is expected to grow strongly in the coming years with expansion of distribution and product range.

Opportunities and threats

In an emerging economy like India, the volume of lighting products will continue to have high growth, due to increased housing and commercial development. Newer lighting technologies mainly LED bulbs and LED based luminaires have become more popular as these are more environmentally-friendly and also provide higher value to consumers over time. The Government of India's countrywide campaign of providing LED bulbs and LED based luminaires at affordable prices has added fillip to the category. EIIL will have to be a part of all such technology changes. This provides a good opportunity for the Company to entrench itself in the category given its brand fit and distribution network. EIIL will however continue to be present in all other ranges in the category to cater to all kinds of consumer needs.

The category however faces the threat of fragmented competition, dynamic market prices and low entry barriers. The Company will have to continue its focus on maintaining its brand salience alongwith enhanced distribution to reach the desired scale.

Risks and concerns

The only foreseeable risk in this category seems to be the ability to cope up with the dynamics of an evolving market and get the first mover advantage. This needs to be tackled through a range of quality product offerings at competitive prices.

SMALL HOME APPLIANCES

The Company has recently forayed into this segment by leveraging on its brand equity and is in process of creating a pan-India distribution network through appliance selling outlets. It also plans to leverage its presence in all modern format stores and E-commerce platforms. This category having a low level of penetration, highly fragmented segmentation coupled with a large size offers a good potential for the Company to augment its turnover substantially in the coming periods.

Performance review.

During 2018-19, the category turnover was at ₹ 138.8 Crores as against ₹ 109.2 Crores in the previous year. The improvement trend is in line with the Company's upscaling plans, despite a lower offtake in the last quarter of the year attributable to an extended winter. The category registered EBIDTA loss during the year as it is in a building up phase and the revenues are yet not enough to cover costs. However, the impact of this will be mitigated as the segment scales up in the near future.

Opportunities and threats

In an emerging economy like India, increasing disposable income and pressures on time management forces families to adopt faster modes of cooking. Prevalence of nuclear families increases the demand for kitchen appliances as they want to explore various cooking styles and mediums. These appliances are seen as an investment in efficiency and convenience. This trend is expected to continue in the future which will increase demand and should benefit branded players like EIIL. The fan segment of appliances is expected to grow manifold as the drive for rural electrification continues in the country. The Government of India's country wide campaign of providing fans at affordable prices will add fillip to the category. EIIL will have to be a part of all such initiatives. This provides a good opportunity for the company to grow in the category given its brand fit and distribution network.

The category however faces the threat of fragmented competition, dynamic market prices and low entry barriers. The company will have to continue its focus on building effective distribution to reach the desired scale.

Risks and concerns

The risk associated with the category is that of product obsolescence which may make inventory management difficult. However, this can be overcome through consolidation of the portfolio as the category reaches scale.

PACKET TEA

EIIL has been leveraging its distribution network to market packet tea and derive additional revenues at virtually no extra costs. The Company has not really invested any money in advertising for the brands Tez, Jaago, and Premium Gold that are targeted at different consumer segments. Though these brands have gradually been increasingly accepted due to their superior quality, which has been a hallmark of EIIL's packet tea branding strategy, the Company's share of the packet tea market remains limited.

Performance review

During 2018-19, the category turnover was at ₹ 68.3 Crores, representing a de-growth of 4.8% over the previous year. Efforts were concentrated to scale up turnover in a few focused markets through extensive branding strategies and enhanced distribution drive.

Opportunities and threats

With loose tea prices remaining firm over the last few years, the threats from unorganized players remain limited because of their limited pricing power.

Risks and concerns

The risk associated with the category is one of low growth which limits the ability of this business to become very profitable. Also, should loose tea prices fall, it will further impact the profitability adversely. Work is afoot to mitigate this position.

DETAILS OF SIGNIFICANT CHANGES (I.E. CHANGE OF 25% OR MORE AS COMPARED TO THE IMMEDIATELY PREVIOUS FINANCIAL YEAR) IN KEY FINANCIAL RATIOS, ALONG WITH DETAILED EXPLANATIONS:-

Ratio	2018-19	2017-18	Change (%)	Reasons
Current Ratio (number of times)	1.24	1.07	15.89	NA
Debt Equity Ratio (number of times)	1.02	0.71	43.66	Debt Equity ratio is higher due to higher borrowing
Debtors Turnover Ratio (number of times)	12.77	14.39	(11.26)	NA
Interest coverage Ratio (number of times)	2.09	3.69	(43.36)	Interest Coverage ratio is lower on account of higher interest cost due to higher borrowing
Inventory Turnover Ratio (number of times)	3.35	3.09	8.41	NA
Net profit nargin (%)	3.24	3.76	(13.83)	NA
Operating profit margin (%)	8.42	7.23	16.46	NA
Return on Net Worth (%)	12.55	15.90	(21.07)	NA

INFORMATION TECHNOLOGY

EIIL has traditionally invested in information technology (IT) to provide effective business solutions amenable to informed decision making.

The overall IT environment continues to be steady. The processes are sound and are well internalized within the organization.

INTERNAL CONTROL AND SYSTEMS

The Company has adequate internal control procedures commensurate with its size and nature of business. Their objective is to ensure efficient usage and protection of the Company's resources, accuracy in financial reporting and due compliance of statutes and procedures.

The existing system provides for structured work instructions and clearly laid-down procedures for authorization and approval for the purchase and sale of goods and services. It also provides for reserved responsibility of custodial control with identified personnel, and use of computerized systems to ensure controls at source.

The Company has a full-fledged in-house Internal Audit Department manned by trained professionals. The pre-audit and post-audit checks and reviews are carried out to ensure follow up on the observations made by the Audit teams. The Audit Committee of the Board, in its periodic meetings, reviews the Internal Audit reports, the progress in implementation of their recommendations and the adequacy of internal control systems.

The Company has a well-documented Risk Management System, which is reviewed by an active Steering Committee appointed by the Board of Directors. The risk registrar does identify a few risks, which are routine in nature and none of which present any significant impact. There is a mitigation system in place which addresses these risks as part of the routine management process.

HUMAN RESOURCES

People power is one of the pillars of success at EIIL. The Company employs nearly 2500 individuals across its various plants and branch locations, who share a passion for excellence. The key attributes of human capital at EIIL are a rich knowledge base, expertise and experience.

The employee-management relations remained cordial throughout 2018-19. The human resource management system at EIIL puts emphasis on rewarding merit-based performance and raising the skill level of employees.

OUTLOOK

Battery volume remained flat during the year. The market saw heightened activity in respect of dumped imports from China – in apprehension of mandatory quality standards issued by Bureau of Indian Standards (BIS). The flashlight category was impacted by the continued proliferation of gray market products. The Lighting and Electrical segments was partially impacted by supply constraints and market turbulence created by unit price decrease of LED bulbs. The turnover of Small Home Appliances segment though higher than previous year was impacted by extended winter, which resulted in lower offtake and lack of Government orders in the fan segment. While all of this led to an flat turnover, overall profitability of the Company was superior due to higher profitability in the battery and flashlight categories – driven mainly by favourable commodity prices, accrual of fiscal benefits from the Assam manufacturing unit and overall cost conservation, mitigating the adverse impact of a depreciating rupee.

However, in the medium to long term, the introduction of BIS standards for all dry cell batteries marketed in India in May 2019 would help the domestic manufacturers from unhealthy competition from the Chinese exporters as their costs would escalate in complying with the quality norms. This, alongwith expectation of a near-normal monsoon in the forthcoming season, should add fillip to the demand. The Company is also confident that it will be able to capture growth in this market, riding on its obvious strengths of premium quality offering, brand and distribution. Stabilization of GST regime is expected to have a positive impact on the economy, thereby augmenting demand, which will be beneficial to EIIL. It is anticipated that the GST regime will bring in higher degree of tax compliance in the country. The battery and flashlight categories, bear the impact of non-compliance with tax laws by unorganized part of the market – either through undervalued dumped imports from China for batteries or gray market local operators in the flashlights market. It is expected that stabilization of the GST regime will bring such elements into its net thereby eliminating the unfair gap in the pricing structure with tax compliant organizations. As a consequence both batteries and flashlights should show reasonable growth in 2019-20. The outlook on battery and flashlight categories thus remains positive.

Prospects are promising in the Lighting & Electrical products category. This business has become a key focus area and an avenue for growth. As mentioned earlier, the market has now almost entirely shifted from CFL to LED bulbs and luminaires. LED bulbs and LED based luminaires with higher margins now constitute more than 80% of the category turnover and these will be the growth drivers for the category and the overall business of the Company. This range of new generation lights have been very well accepted by the market and will enhance the Company's efforts towards a fruitful diversification. The outlook is thus upbeat - with potential for both growth and profitability.

Growth will also come from the product segment of appliances with growing disposable incomes and Government's initiative of rural electrification. Though at a nascent stage, initial market response and results have been encouraging.

CAUTIONARY STATEMENT

Statements in the Management Discussion and Analysis Report in regard to projections, estimates and expectations have been made in good faith. Many unforeseen factors may come into play and affect the actual results, which could be different from what the Directors envisage in terms of future performance and outlook. Market data and product information contained in this Report, have been based on information gathered from various published and unpublished reports, and their accuracy, reliability and completeness cannot be assured.

For and on behalf of the Board of Directors

	Suvamoy Saha	**Amritanshu Khaitan**
Kolkata	Wholetime Director	Managing Director
May 27, 2019	(DIN:00112375)	(DIN:00213413)