Management Discussion and Analysis

INDIAN ECONOMIC OVERVIEW

As the world continues to witness one of the worst humanitarian crisis in a century by the spread of the pandemic, it has inflicted deeply adverse impacts on the global economy. Consequently, the Indian economy also faced a severe crisis whereby the GDP declined by 7.3% during the year. The drop was largely due to a sharp 15.7% decline during the first half of the year though there was a decent recovery during the second half. Apart from agriculture sector, most of the other sectors witnessed steep decline during April to September 2020. Increased uncertainty, loss of incomes, curtailment of spending led to contraction of demand. Supply chains were disrupted due to closure of economic activities and limited availability of labour, leading to contraction of supply. The situation improved somewhat during the second half of the year whereby economic activities revived resulting in increased demand and supply. The various measures announced by RBI provided the much needed liquidity in the system to ramp up economic activities. Rural demand remained resilient throughout the year riding on various existing social schemes as also steps taken to combat the pandemic. It would take a while before the economy can come out of this unprecedented crisis. The second surge of the pandemic from around the end of the financial year has not only put the entire healthcare infrastructure under stress, economic activities are starting to get affected adversely. Many of the states have adopted steps ranging from lockdown like restrictions to full lockdown to combat the situation. Despite this emerging situation, the Reserve Bank of India expects FY 2021-22 GDP to grow by around 9.5% - albeit on a lower base. It is expected that India's vaccination programme will be stepped up substantially from the current level thereby minimizing infections and fatalities and in turn is likely to normalize economic activities in the near-term. India has the advantage of a large domestic population and therefore is likely to witness a strong demand if the steps taken by the Government become more effective in controlling the pandemic surge. Normalizing economic activities will bolster the supply side. Lower interest rates will also spur investments which will create jobs, thereby aiding demand.

Although overall sentiments are currently uncertain, it appears that in the medium to long-term, conditions do exist for Indian economy to achieve high growth rates. India continues to stand on the anvil of becoming a 'middle income' economy. Once the impact of the pandemic is normalized and economic activities revive, people will continue to experience higher income levels - and a large percentage of the 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 traditionally been a consumption-driven economy. However, the COVID-19 outbreak has resulted in a major economic slowdown. There has been loss of employment, both in the formal and informal sectors. Consumers have reduced discretionary spending which has resulted in lower demand thereby reducing growth. While the country seemed to be recovering from the effects of initial outbreak of the pandemic, the second surge of cases started coming in towards the end of the year. This is also likely to have some impact on economic activities in the near-term, as lockdowns and lockdown like restrictions are imposed in various parts of the country to minimize the pressure on the healthcare infrastructure. However, once the threat of the pandemic recedes as the countrywide vaccination programme steps up and economic activities return to normalcy, the situation is expected to improve. Directionally, the pattern of consumer behavior and habit is likely to undergo a change to the "new normal", wherein online and contact-free sales will see a significant surge, mainly in the urban and semi-urban areas. Customers are likely to prefer smaller stores in place of big supermarkets. Hence, buying from small shops alongwith online purchases should become a trend for the future.

Despite the disruption caused by COVID-19, in the longer term, India could still become the world's largest middle class consumer market. As per an earlier research report by Deloitte, India's total consumer spends could reach nearly US$ 13 trillion by the year 2030 (Source - Report titled 'India Matters: Winning in growth markets' by Deloitte). As per 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. With the Government taking a number of steps to revive economic activity, it seems that the sector can come out of the crisis and continue on a path of growth as predicted by various researches.

As mentioned earlier, the Government has taken a number of steps to revive the economic cycle – both on the demand and supply side. Once the surge of the pandemic is over and the vaccination programme is ramped up, the economy should 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'.
- 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 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. It also distributes the products through the electrical distribution network and the modern retail channel. 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.

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 ₹ 1,500 Crores by value and 2.6 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 was benefitted by generation of a healthy demand coupled with a decline in imports of poor quality products from China post implementation of BIS standards. Furthermore, there was a disturbance in the overall supply chain for imports due to the pandemic which helped the domestic manufacturers. As a result, the category volume and value both registered growth during the year.

The market segment pattern underwent changes during the past several years 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	2020-21	2019-20	2018-19
D	7.9	8.8	9.3
C	0.1	0.1	0.2
AA	68.0	70.6	71.1
AAA	24.0	20.5	19.4
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 around 92% share. The alkaline battery segment has a share of around 8%. The rechargeable battery segment, which accounts for a negligible 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 2020-21, the category turnover was at ₹ 800.9 Crores, 10% higher over the previous year. Despite supply chain disturbances during the initial phases of the countrywide lockdown, a healthy demand was generated as economic activities started to resume. Volumes improved by 6% as cheap Chinese imports got restricted due to BIS standard implementation. While AA volumes witnessed marginal growth, AAA registered a robust growth. EIIL's market share was at 50% and the product mix also remained quite similar to that of the market. The category registered a very healthy EBIDTA of ₹ 207.4 Crores during the year (EBIDTA margin 25.9%), mainly due to favourable commodity prices, fiscal benefits from the manufacturing unit at Assam, overall cost conservation and lower overheads as various establishments of the Company continued to run in a limited manner in the midst of the pandemic – mitigating the adverse impact of a depreciating rupee.

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. The impact of the COVID-19 pandemic has also proliferated use of battery operated medical equipments like thermal scanners and oximeters which is likely to augment over time – given the long lasting nature of the pandemic.

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 from China continue to be a threat. With the implementation of a new set of standards issued by the Bureau of Indian Standards (BIS) for dry cell batteries, while imports of these cheap and poor quality products have slowed down, the potential for dumping still remains through other means – either by bringing in battery components for assembling or through incorrect tariff classification. However, it is unlikely that the cheap imports can reach a scale similar to that in the past years. Moreover, the Goods and Services Tax (GST) regime has brought in higher degree of tax compliance in the country, thereby providing a more level playing field 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. Yet there are tangible threats of players trying to position these products at price points significantly closer to carbon-zinc battery prices to encourage change in consumption behavior. That has led to a somewhat increased market share for such batteries. EIIL does have a presence in this segment and will actively participate if the market provides any indication of a significant change in consumer behavior.

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 2020-21, the category turnover was at ₹ 179.1 Crores, 8% higher than the previous year. This turnover growth was achieved despite sluggish volumes as the category continued to receive steep competition by a large unorganized market and an overall muted demand due to restricted economic activities. The category continued to be profitable with an EBIDTA of ₹ 39.1 Crores and an EBIDTA margin of 21.8%.

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 unorganized market operations launching look-alike models, usually without payment of taxes taking advantages 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 unorganized market look-alike 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 have been 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 2020-21, the category turnover was at ₹ 221.1 Crores, lower than the previous year – due to steep constraints on supplies and disruptions caused by lockdown restrictions during the first quarter of the year. As a result, LED lights turnover de-grew by 7% over the previous year. Despite reduced economies of scale, the segment registered an EBIDTA of ₹ 9.2 crores as various establishments of the Company continued to run in a limited manner in the midst of the pandemic. 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 expanding distribution network through electrical 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 2020-21, the category turnover dropped to ₹ 51.8 Crores as against ₹ 61.5 Crores in the previous year primarily attributable to disruptions caused by lockdown restrictions during the first quarter of the year, weak demand in the midst of the pandemic as consumers curbed non-essential purchases and supply constraints for key products. Despite this blip, the Company remains focused on its upscaling plans through the existing channels of distribution and a more robust product range. The category registered EBIDTA loss of ₹ 15.1 Crores 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 countrywide 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 immediate threat of low demand in the midst of the COVID-19 pandemic as all discretionary spends continue to get deferred.

Furthermore, the Company 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.

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

Key Financial Ratios	2020-21	2019-20	Change (%)	Reasons
Current ratio (Number of times)	0.9	1.6	(42)%	Due to reduction in Current Assets arising out of exceptional adjustments
Debt Equity ratio (Number of times)	1.7	0.7	(154)%	Due to reduction in Networth arising out of exceptional adjustments
Debtors Turnover (Number of times)	28.8	15.4	87%	Due to improved cash rotation in business
Interest coverage ratio (number of times)*	3.9	4.1	(6)%	NA
Inventory Turnover (Number of times)	3.0	3.1	(4)%	NA
Net profit margin (%) **	(24.8)	14.8	(267)%	Due to adjustments for Exceptional items
Operating profit margin (%)	18.0	10.0	80%	Due to improvement in operational profitability
Return on Net Worth (%) **	(124.1)	32.2	(485)%	Due to adjustments for Exceptional items

*Earnings before interest and tax for 2020-21 does not include non-cash exceptional items

** Including the impact of Exceptional items for 2019-20 and 2020-21

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 2200 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 2020-21. The human resource management system at EIIL puts emphasis on rewarding merit-based performance and raising the skill level of employees.

OUTLOOK

Battery volume grew by 6% during the year as import of cheap Chinese batteries reduced during the year post introduction of mandatory quality standards issued by Bureau of Indian Standards (BIS). Furthermore, a healthy demand was generated as battery operated gadgets and equipments like TV remotes, AC remotes, thermal scanners and oximeters gained prevalence. The flashlight category was impacted by the continued proliferation of unorganized market products. However, the category registered turnover growth due to better realizations and better product mix. The Lighting and Electrical segments were marginally impacted by supply constraints and disruptions for lockdown restrictions in the midst of the pandemic. The turnover of Small Home Appliances segment was lower due to weak demand sentiments and supply constraints. While all of this led to a flat turnover, overall profitability of the Company was much superior in comparison to the previous year due to higher profitability in the battery, flashlight and lighting categories – driven mainly by favourable commodity prices, fiscal benefits from the Assam manufacturing unit, overall cost conservation and lower overheads as various establishments of the Company continued to run in a limited manner in the midst of the pandemic – mitigating the adverse impact of a depreciating rupee.

In the medium to long term, the introduction of BIS standards for all dry cell batteries marketed in India 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 and proliferation of various battery operated medical equipments in wake of the pandemic, should add fillip to the demand. The Company is confident that it will be able to capture growth in this market, riding on its obvious strengths of premium quality offering, brand and distribution. While the situation arising out of the COVID-19 crisis may cause short term disruptions in demand, both battery and flashlight categories may not bear the brunt of such disruption as supply of dumped import for batteries is expected to remain substantially lower and the overall demand is likely to remain strong. The Government's initiatives to make India self-reliant would also augur well for the domestic industry. Furthermore, stabilization of the Goods and Services Tax regime would have brought a lot of gray market operators into the tax 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 2021-22. 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 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 has 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 the demand is likely to remain muted for some time in the future due to the raging pandemic, market response and results have been quite encouraging in the category.

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

Aditya Khaitan
Chairman
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Kolkata
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