EVEREADY
GIVE ME RED

From	: 28-08-2014
To	: 25-05-2015
Performance	: 179%
Recommendation	: CLOSED

Background & Business

Eveready is flagship company of B.M. Khaitan-run Williamson Magor Group. Promoters own 44.05% stake (as on 31st March 2018) of which 45.42% is pledged. Its mainstay business is manufacturing, sales of dry cell batteries (~50% market share) & flashlights (~75% M.S.), with the 100 year old brand "Eveready" being virtually a generic word for 'batteries'. Battery segment contributes 50% to revenues (FY18), flashlights 12%, lighting & electrical 24% and Packet tea, Small Appliances, confectionaries & electrical products contribute the remaining 14%. Since 2014, company has focussed on 1) leveraging its strong brand & vast distribution network (3.2mn retail outlets) for sale of new product offerings such as 'lighting' & 2) de-leveraging balance sheet.

Exit Rationale

a) **Battery segment facing turbulence due to Chinese dumping** (Battery business has seen mixed growth for several quarters due to continued flow of cheap Chinese imports, which constitute ~10% of the total market. While counter measures against dumping of batteries were initiated by industry, the Directorate General of Anti-Dumping & Allied Duties was of the opinion that imports are not causing any material injury to domestic players & hence proposal to levy the duty was shelved. With competition likely to remain stiff, dumping would remain prevalent).

b) **LED segment seeing price erosion** (LED segment has got higher margins compared to CFL segment & has also registered higher volumes owing to shift from latter to former. However, intense competition has led to price erosion in the segment, nullifying effect of volume increase).

c) **Entry into small appliances to put pressure in initial years, but may provide a strong long term lever** (Eveready has entered in small appliances segment comprising of fans, water heaters, kitchen appliances, etc., where it would position itself as a value-for-money player. The segment is vast, offers tremendous scope for growth & the company can leverage its brand power & vast distribution network to push its products into urban & rural areas. This can be a long-term game-changer for Eveready if it can pull off the entry well, however the segment is crowded with larger players leading to strong pricing pressures & would require considerable investment in initial years, putting pressure on financials over next 2 – 3 years).

Outlook as on EXIT Date

We do not see too much value in the battery and LED segment due to dumping of Chinese products which have distorted the overall market and led to severe price erosion. We played the stock for its valuation story, while the current valuations do not offer scope for significant upside. Hence, we prefer to exit the stock and move to other opportunities.

However, we will continue to monitor all the developments in the company and would take a re-look at owning the stock as and when the performance improves and valuations look inexpensive.

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