



Eveready Industries India Limited

Q4 & FY23 Earnings Conference Call Transcript

May 10, 2023

Moderator: Ladies and gentlemen, good day, and welcome to Eveready Industries India Limited Q4 FY23 earnings conference call. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero 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.

Nishid Solanki: Good afternoon, everyone, and welcome to Eveready Industries India's Q4 & FY23 - Earnings Conference Call. Today, we are joined by senior members of the management team, including Mr. Suvamoy Saha, Managing Director; and Mr. Bibek Agarwala, Chief Financial Officer. We will begin the call.

Let me first share our 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 statement in this regard is available in the press release document, which has been circulated to you earlier and is also available on stock exchange website.

I would now like to invite Mr. Saha to share his perspective. Thank you

Suvamoy Saha: Good afternoon and thank you all for joining us on today's call. Through my commentary, I will seek to update you on our company and its businesses.

The Eveready brand is much loved by its consumers. It has a long relationship based on trust and the quality of its offerings. Our product travels the length and breadth of the country, combining present across general trade and modern outlets, our brands are available in nearly 4 million outlets with our team servicing a little less than 1 million of these directly. The brand salience and the distribution reach give Eveready



a unique advantage against its peers.

As we continue our journey to scale up our revenues, efforts are underway to make our distribution network more efficient. Our teams have studied the demand pattern and key customer requirements and have effected changes to streamline the route-to-market processes. Changes have been affected not only across our organization but also across our channel structures wherein we have reduced our direct distributors from an earlier number of 5,000 to a more efficient 1,000. We have managed this change without any impact on our business.

We are thinking long term here and expect distribution to be ready to back present and future portfolio as well. Our new route to market comes in with renewed effectiveness and been able to handle our multiple categories. Another aspect that we are now consciously driving forward is consumer communications, for long we remained dormant in this area. Whereas we always believed in having a good product, we are emphasizing sustained outreach so that the consumer feels engaged. Over the last year, we have made several product introductions and each of these has been supplemented by 360-degree promotional activities.

We have enjoyed the benefit of high recall for Eveready and this time, we are taking the steps required to carry this engagement forward and the outcomes are visible. Also, behind any successful company stands a talented employee pool that provides the right direction as well as the execution capability. I'm proud to mention that over the last one year, we have systematically revamped our organizational capability by gathering a pool of talent at the leadership levels, comprising of both old hands and new joiners with wide exposure, which has made our company not only fit for the challenges today but also future ready.

I will now cover brief updates on each of our business segments commencing with batteries.

In batteries, Eveready continues to rank highest in terms of awareness and recall. Our market share for FY23 was at 53.4%, an increase of 50 basis points over last year, signifying a sustained momentum for us and what is more heartening is that we have achieved this when the broader battery market has stayed where it was. As mentioned, the market for batteries remained flat to lower during the year. On the other hand, we have reported a 21% increase during quarter 4 in a mix of both volume growth and premiumization.

For the full year, we grew by 13.4%, out of which a 3% increase came from volume growth. We reigned the market, as leaders in batteries, our initiatives are aimed at

tapping every segment within this market, including segments where we are under-indexed. Flashlights have seen healthy improvement in contribution in the rechargeable category as the business introduced several products that click to the consumers. Quality and value for money are the hallmarks that we cultivate diligently, the battery-operated category has continued to receive as consumers find utility in function-built rechargeable products. The rate of surge growth seems to have slowed down in the recent quarter.

As mentioned, the decline of battery-operated torches was at a much lower 1.3% in quarter 4 as against 8.6% for the whole year. The rechargeable category is demonstrating strong growth. The categories where hitherto, we were absent. We made a gradual but impactful entry into this segment in the latter part of the financial year. This category helped us register a 26% growth for the entire flashlights business during quarter 4 and helped us to register a small full year expansion of 2%.

We have a long road ahead of us as we build a portfolio of purpose created offerings with quality as the pivot. As opposed to the unorganized segment, our range offers a far superior proposition and is engaging with the consumers through targeted advertising. Our availability in the general and modern trade is an asset in driving salience in this business segment.

As you are aware, LED lighting is the newest segment that we have tapped into. Earlier, we were content with presence in the general trade with a modest offering of bulbs, with a remapped route to market, we are now geared to step this up and accordingly, have launched new SKUs across the value range. LED luminaires, both in retail and professional categories are being introduced. We have taken a dual brand strategy here with Eveready being the master brand, the vehicle of innovation and feature functionality, and power cell, our flanker brand through which we tap into the value tier. The growth in this business will accelerate as we broaden our presence in the exclusive electrical shops and build relationships with professional influencers such as architects, interior designers, contractors and developers. The teams are making headway in the trade channels and aiming to expand sales in the coming months backed by quality products and superlative features. In the Lighting segment, we had revenue growth of 26% during Q4 and for the full year, improving by 24%.

Now I would like to draw your attention to our overall performance during the recently concluded quarter and the financial year. We had revenue growth of 23% during Q4 with each of our three business segments reporting growth of 20% plus. Revenue for the full financial year improved by 14%. This is, of course, without the discontinued business of appliances. Gross margin saw expansion during Q4 by 150 basis points over the same quarter last year, a result of both premiumization as well as relief from

materials inflation. However, EBITDA during Q4 was only a minor positive of Rs. 1 crore against a loss of Rs. 35.6 crores in Q4 FY22.

The fourth quarter saw an uptick in planned expenditure on ATL and BTL activities at 12.2% against the full year expenditure of 7.2%. The higher spend was tactical in nature as not an indication of sustaining it in future at this elevated level. During the full year of FY23, we reported EBITDA of RS.110.1 crores against that for the previous financial year at Rs. 120.3 crores. EBITDA for the year was impacted by higher A&P expenses, nonrecurring costs incurred for implementation of our new RTM consulting, etcetera, and a steep raw material inflation in the earlier part of FY23 resulting in loss of 250 basis points at gross margin level for the full year, a trend, which, as I have said, has already reversed from Q4.

As for the future, Eveready is focused on driving growth across business segments with clear emphasis on riding the premiumization trend, we have the right products, and we are supplementing that with an efficient distribution and impactful ATL and BTL activities, which we wish to sustain at 10%. As a consumer brand, we want to be on the minds of our consumers, our strategy for batteries, flashlights, and LED lighting, and associated products are duly aligned with this thought.

With our route to market having settled down to our new design, the management team is focusing on growth, aided by new efficiencies. The objective for the coming financial year is to surpass the growth percentage achieved in FY23. As indicated before, relief from materials inflation and premiumization incentive initiatives have already started bearing results. As we go forward, I see a distinct possibility of further gross margin expansion and certainly a more robust margin at the EBITDA level.

We will leverage our infrastructure as we keep gaining scale as employee expenses and overhead costs start moving in the direction of and benchmark to accomplished companies of similar products. We have a robust business model and strong brands, and I'm confident in our ability to execute the plan. The coming years will chart a sustained growth story and set the stage for incremental portfolio additions. With that, I would like to bring my opening remarks to a close and request the moderator to allow participants to address their queries to us.

Moderator: The first question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: I'm watching the results and making an analysis. Can you tell me how the Dabur group is attached with company? Or are you receiving any advice from them in a board meeting, when and when all products grow around 21% to 26%, why not face the

market in the bottom line?

Suvamoy Saha: First of all, let me answer the Dabur related query. Dabur is a separate entity as we are. We are both listed entities. We have no connection, the only connecting factor, if at all, is that the promoters of our company and the promoter of Dabur are one and the same. So, the promoters on our Board yes, they are on our board. Do they advise us, of course, they advise us. But it has nothing to do with any Dabur. I mean they are our promoters, the advisers, and we, of course, take guidance and seek inspiration from them.

With regard to the growth, I think the growth that you alluded to is upwards of 20% that I mentioned in the perspective of Q4 performance. That is not true for the whole year. As I mentioned, for the whole year, the growth was at 14%. The reason for that not reflecting into the bottom line is, as I mentioned there were costs that we undertook, I mean, this was a year of transformation for us. So we had a lot of costs which are nonrecurring in nature. And so those as we grow our top line, as we aim to do, those costs are not going to be repeated or those costs have already gone into the baseline. So, in the future, the profitability would certainly be of an improved nature. I hope I have been able to clarify the points.

Ravi Naredi: Do we have pricing power means whatever raw material cost rises we ship to consumers.

Suvamoy Saha: So, as I mentioned in my opening remarks, much of our growth has been driven by premiumization, which indicates pricing power. So, when raw materials inflation took place in the earlier part of the last financial year, we did pass on impacts to the consumers, but it was not entirely passed on like most companies struggle to pass on the entire impact. But now the trend has reversed. So, we are now in a happy spot where the impact that came and the remains of that, we are neutral with regard to that as far as our pricing is concerned.

Ravi Naredi: And sir last, this Rs. 17.4 crores loss you have charged any such more charges possible in next few years or the story will end here?

Suvamoy Saha: I will request our CFO to answer this question.

Bibek Agarwala: So, I hope that we hope that as of now, we don't have those type of onetime amortization expenses. Our all effort to get clean up the books from those type of expenses. And we have swapped these high-cost loans with a cheaper cost loans. So as of now, we don't see that type of loan charges because our loans are pretty clear at this point of time.

Ravi Naredi: So according to you, there will be no such charges, right?

Bibek Agarwala: Yes, we positively expect so.

Ravi Naredi: And one small question, loan rises from Rs. 102 crore versus Rs. 36 crore, what is the reason?

Bibek Agarwala: Sir, as you have seen, very valid point. As you have seen, this company has not grown over a period of last you have seen last 6, 7 years, there was a flat to almost nil growth. This year, you have heard that we have gone to route to market. We have done revamp of our distributor network. So earlier, we have a 5,000 network of the distributor and dealer now we have 1,000. So, this is a phase on a route to market strategy. And now our all effort are aimed to gradually get it reduced over a period of time, next few quarters.

Moderator: The next question is from the line of Darsheel Javeri from Crown Capital. Please go ahead.

Darsheel Javeri: I just wanted to know that I think this year has been the year of where we made a lot of changes. So now going forward, like do we have like what would be our 3-year or maybe 5-year plan? Like what kind of growth do we expect? Because I think a lot of things that we're looking on lighting and LEDs are working good for us right now. So, could you help us gather what kind of range of revenue growth that we could see?

Suvamoy Saha: The company has already attained a level of growth at 14%, which is certainly above the average market standard. We would like to surpass that in the coming year. Now where exactly it will fall It is difficult to predict at this point of time. The internal team, of course, is working at a number which I would not like to sort of discuss here. But it would certainly surpass the FY23 rate of growth.

Darsheel Javeri: I think FY22 vs. FY23, is a 10% growth in revenue?

Suvamoy Saha: FY22 had a business within the organization, which is related to appliances, which we have shut down in FY23, so that business, though the base had that amount, it actually bears normal relevance to our current operations, which is why when we report growth, we ignored that for the last FY22 as well as whatever little that was there in FY23. We shut the business in the first half of FY23 itself.

Darsheel Javeri: Sir, with regard to margins as we, you're correctly saying that we had some nonrecurring expenses and higher expenses, those are a double type of question that what would have been your FY23 expenses, which are maybe onetime in nature? And going forward, how would we see our margin trajectory that we could expect a

double-digit margin that we've done previously, how fast could we go to mid-teens.

Suvamoy Saha: Basically, while the results yet do not reflect that, we expect our gross margin to expand. The fourth quarter itself, we had an expansion of 150 basis points, right? And we certainly feel confident that our EBITDA would reach double digit in the coming year.

Darsheel Javeri: Yes. So double digit, I was asking mid-teens. I misspoke.

Suvamoy Saha: No. So what we would have is to certainly our fast tip, we are currently at 8.6% or thereabouts. We would certainly first aspire to reach 10%. And obviously, like any organization seeking growth and achieving it, it would, our next step would be to go towards mid-teens. Now whether you are right. Now it is the timing, which is sort of something that we need to monitor and track, whether it is going to happen over the next 2 years or 3 years' or 4 years is the question mark, but it will certainly happen.

Darsheel Javeri: How much would you think that for the nearly onetime expenses that we had during a year, like we have the Rs. 17 crores. Anything else that was which we feel will not come going forward?

Suvamoy Saha: So, I would say in the non-cash charge, Rs. 18 crores or Rs. 17.5 crores, as you have mentioned, is certainly not going to be repeated. Within the operating costs and cash charge, I would say something to the extent of at least Rs. 25 crores to Rs. 30 crores are not to be repeated in the coming year.

Moderator: Next question is from the line of Nagraj Chandrasekar from Emerge Capital. Please go ahead.

Nagraj Chandrasekar: Just on the gross margins going forward, your zinc prices are down roughly 20% quarter-on-quarter averages for this quarter versus the last quarter and down roughly 30%, 40% versus Q4 FY22 sort of run rate, you've been able to take up pricing very well like you yourself mentioned a lot of the growth in FY23.

How much of this can you hold on to when zinc goes down this much, given you're also focused on taking market share. If you look at long-term history on margins, where zinc pricing has been at these levels, you've made close to 40% or your margin, gross margins below 40%. So, I just wanted to get a sense of at current zinc prices, what sort of benefit can you hold on to going forward?

Suvamoy Saha: So, we have no plans whatsoever on passing it on to the market at all. As I said, our objective is to premiumise, so to that extent, it does not exist with a policy whereby when the input costs come down, we start passing it back to the market. Ours is a

branded play. So, brands usually do not pass it on. So, we will hold on to the benefit that we have.

Nagraj Chandrasekar: Understood. And just if you remove the Rs.25 crores, Rs.26 crores of one-off operating costs, which you mentioned there in FY23, that itself should get you to a 10% margin roughly in FY24. You then have this gross margin benefit on top of that. And obviously, some of it will be counteracted by additional A&P spend to revenues, I guess, you mentioned around 10%. But shouldn't 10% be very easily manageable in that case?

Suvamoy Saha: So as I mentioned, we will certainly we feel confident and we'll certainly aim 10% EBITDA margin. Just to give you a sense, our A&P expenses itself will grow by something like Rs.60 crores in the coming year. So while you mentioned the savings, there are also, and that is something which is a must. I mean this company, as I mentioned, just to you a little while back, is a branded play. So we have to keep up with our consumer engagement activities.

So you and in the past, we did not actually uniformly communicate with regard to all our product segments. This is the first year when whether it is batteries, whether it is lighting, whether it is flashlights, we'll be communicating and engaging the consumer on each of these segments and which is going to take, as I said, an additional Rs.60 crores over what we have spent this year. So you have only seen the positive. I mean I'm not saying this is a negative, but this is an expenditure that we are consciously going to incur.

Nagraj Chandrasekar: Could you have given the split for the segment revenues and margins for the current year (FY23)?

Bibek Agarwala: So, if you see our battery is around 65.4% for the full year and flashlight is 12.4%, and lighting is 22.2%.

Nagraj Chandrasekar: And the EBITDA margin from each?

Bibek Agarwala: EBITDA margins, batteries play around 12%, flashlight around 13%, and lighting is breakeven at this point of time, which should that trend would go positive in the forthcoming year.

Moderator: Next question is from the line of Aditya Makharia from HDFC Securities. Please go ahead.

Aditya Makharia: Yes. Hi sir. Just on the lighting business, where are we in terms of our distribution ramp-up because we are now going increasingly to the electric stores as compared

to the general trade channel earlier. And also, in terms of our manufacturing base, I think we have appointed one dedicated supplier who will just make products for us. So are we through with the designing? And where are we in terms of our ramp-up on the lighting side?

Suvamoy Saha: So I take your question backwards. So with regard to the designing, lighting industry is a dynamic industry where innovation is made every single day. So if you say that have we completed our design activities, that question has to be answered in the negative because it's an ongoing process. And we have a fully dedicated team which is 24/7 only deployed for this. We have one dedicated exclusive contract manufacturer who does a decent bit of our current volumes. We also work with 2 or 3 others very, very reputed vendors. So that is currently our sourcing plan, and we do not see much change in that going forward, and it is not a hindrance because each of these capacities are large and will cater to our aspirations for growth, at least in the forthcoming future.

With regard to the ramp-up, our new route to market has very carefully designed to ensure that the electrical because this is one of our prime focuses because as we have articulated before and I articulate now, lighting business is one of our main growth drivers. So when we designed the new route to market, we make sure that we are careful enough to address not only general trade, which we were always there, but in general, the offering is pretty limited. It is just bulbs and maybe battens and stuff like that. We were careful to make sure that we have now a decent footprint in the electrical chain shops. And that is what we are trying to do.

Aditya Makharia: Can you give some numbers? How is this, how many stores you're addressing now? Or how many geographies I mean as you compare to maybe last year?

Suvamoy Saha: So on the GT part, the number is a little mixed, but I can tell you with regard to the numeric outlet count in the electrical side, we would be in near term having our footprint across 100,000 outlets.

Aditya Makharia: Okay. These are exclusive electric hardware stores, is it?

Suvamoy Saha: Yes. These are basically the lighting outlet, which do not sell anything else other than electrical products.

Aditya Makharia: Got you. Just another question. This is more on the balance sheet. We saw an announcement today where there was a settlement between the promoters and one of their group companies. Okay. Now why I'm bringing this up is because we have an ongoing settlement procedure, arbitration, something of that sort with KKR regarding the earlier matter. So how close are we to resolution on that particular issue?

Suvamoy Saha: So like you have done, I have also read it in the newspaper only. I'm not privy to the details of whatever has transpired between the company and the lender. But as of now, the KKR part is in an arbitration process. And we are hoping and really sort of, we would be more than happy if the case gets resolved because we have always maintained our company has nothing to do with it, and we have just been made a party. However, that is subjudice, so it is not for me to sort of say anything more. It is currently I mean, without making speculation as to what is happening. Currently, the way things stand, it is undergoing an arbitration process and the result of the arbitration should be available by the end of the year or early part of 2024.

Moderator: Next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Sir partly, you mentioned about two figures, Rs. 25 crores and Rs.17 crores. So Rs. 17 is towards the non-cash charges and Rs. 25 is attributable to which category, sir?

Suvamoy Saha: The operating in terms of cost that will have recurred in terms of implementing our RTA and consulting, etc.

Saket Kapoor: Okay. Sir, we did appoint Bain & Company earlier, so, is it the part of the Rs. 25 crore sales base?

Suvamoy Saha: Yes.

Saket Kapoor: They have laid out a path for us or the transitions are in the implementation stage, or they are still working with the same?

Suvamoy Saha: So, they are still working with us. However, consultants don't stay forever. So, they will be dis-engaged and however, they have helped us, they didn't submit any report per se. They helped us design even the new RTL; the design of the scheme has sort of they have helped us a lot in making that design.

Saket Kapoor: Sir, you also mentioned about Rs.60 crores as the AMP advertisement and promotion expenses. So how much have we spent this year, sir? And which line item replaced the same?

Suvamoy Saha: So last year, we had a total A&P of little less than Rs. 100 crores, about Rs. 98 crores. This is going to something closer to Rs.160 crores next year. So, this is the Rs. 60 crores additional that I referred to.

Saket Kapoor: And this line item generally does it get this A&P at charges? And how are they reflected in the P&L?

Bibek Agarwala: This is mostly goes in the other expenses.

Saket Kapoor: We look at the Q-on-Q finance cost, they have gone up from Rs. 10 crores to Rs. 21 crores. And in your note or in fact, in your release, you mentioned about Rs. 17.4 crores unamortized sorry, front-end fees for loans repaid. So, if you could explain to us what led to this finance cost going up from 10 to 21 and the nature of this Rs. 17.4 crores non-cash charge.

Bibek Agarwala: So first, the Rs.17 crores is for the full year, okay? So, let's two parts aggregately. The Rs.17 crores which you are talking about in the final cost for the full year. And out of that Rs.17 crores, around Rs.11 crores in Q4. So that is why you see the finance cost for the Q4 looks from Rs.10 crores to Rs. 20 crores. So that because of that increase.

Saket Kapoor: And this will not be repeating the next year. This is non-recurring.

Bibek Agarwala: Yes. It will not be repeated.

Saket Kapoor: Okay. So, what is our net debt number, sir, currently? And what is your cost of fund?

Bibek Agarwala: So, our average cost of fund is up 9%. And our debt is total around Rs.365 cr.

Saket Kapoor: That is including the working capital.

Bibek Agarwala: Yes, it is including working capital and terms on both.

Saket Kapoor: Okay. So we did mention about this front-end charges fees for loans repaid. If you could clarify what are the loans that were repaid and the nature of this line item? Why we need to pay for repaying of loan?

Suvamoy Saha: No, because this is a high-cost loan was there. So we have just repaid these loans, and we got some cheaper cost of funds. So we try to, it is better to clean up the balance sheet as early as possible. And if we get the better opportunity of a loan, which is a lower cost and then the moratorium period of this loan is also getting over. So now since we are in investment as Bibek spoken about that we have planned to invest on, everybody has meant we have invested on group to market. So probably, it was a better opportunity for us to settle the loan and get a very sustainable loan where I can get some time for the repayment of the new loan.

Saket Kapoor: When you mentioned in your it is a noncash item, but we are debiting it under the finance cost. So there is no actual cash outgo because of this prepayment of loans. And what is our current maturity, sir for FY24, what amount of loans are due for prepayment?

Suvamoy Saha: Approximate around Rs.40-42 crores will be due out of that in this coming fiscal.

Moderator: The next question is from the line of Nalin Shah from NVS Brokerage. Please go ahead

Nalin Shah: At the outset, I would like to turn this thing give our submission that the confidence mentioned by the management in the times to come, is very, very, I think, appreciated, and we are very sure that under your leadership, the company should really transfer itself for better days to come. My 2 questions are there some. One is that if you can lay down, as you have said that you are expecting to improve the performance in terms of the top line, in terms of EBITDA, in terms of net profit margin, etcetera. So if you can give us some idea about the top line growth you have said that whatever that 14% or matter, you would aim to do that. But if you can give us some idea about EBITDA margin and PBT margin, where do you expect to go from the current level, whatever it is so that we have some idea about what improvements are we going to expect.

My second question is on the business that major, the automobile business is getting transformed into electric vehicles. And now we are seeing that the batteries are being like this thing battery operator, I think the electrical vehicles, there is a totally different type of batteries which are being used. So, you being one of the leaders in the battery segment, what is our game plan for capturing this new market when it emerges, I think it has already started. But what is our game plan for servicing I mean this thing, replacing the batteries for the electrical vehicles, if you can give us some idea about that.

Suvamoy Saha: Thank you very much for your very kind words. I take your second question first before I go on to the first one. I see we are a consumer battery company where we sell batteries, which go in day-to-day devices that people use, like for example, remote control, digital camera, the wall clocks, flashlights, etcetera, etcetera, okay? Or pulse oximeter and your pressure monitor, etcetera. So we're not in the business of providing large format batteries, which go into electrical way. So not really in that. Our very small part of our business is also using batteries, which go with lithium-ion technology, goes into the electric vehicles, but that is a large format. We sell small format cylindrical cells, which go into the day-to-day devices, as I explained.

Suvamoy Saha: The future of our participation in the EV market.

Nalin Shah: Yes.

Suvamoy Saha: With regard to your question on the margins, as I have explained, we are currently on a single-digit EBITDA hovering around 8% and that we explained that there are

several costs which we took on which based on the EBITDA margin as compared to our previous periods when those costs were not there. And as it is some of these costs are going to be nonrecurring in nature.

We are still on an investment mode. So we would be incurring very high quantum of advertising expenses, and that expense would permeate all our business segments, be it batteries or flashlights or I think. So as a result, our immediate attempt is to make that investment so that our brand is really sort of in an engagement zone with the consumers, achieve a double-digit EBITDA margin. So, I would say our primary focus at this point of time, we can perhaps overachieve, but to get to a 10% EBITDA for the whole company.

We would of course, like to improve that to higher levels of EBITDA margin but that is when it comes. Our internal management team is working towards improving upon that 10%. But at this point of time, we are guiding you that 10% is what we are certainly going to get.

Nalin Shah: Just to understand a little better, you said something on this lithium-ion batteries for the automotive sector. So is there any, I mean, plans or any ideas, which we are planning to enter that sector and I mean, capture the market over there because that would be a very huge market opportunity.

Suvamoy Saha: So as I explained to you, we are not in that large format battery making, and we do not yet at this point of time, have any plans whatsoever to enter that. We have got plenty of stuff to do with our day-to-day existing business itself. We concentrate on replacement market.

Moderator: Next question is from the line of Dhruv Shah from Ambika Fincap. Please go ahead.

Dhruv Shah: Hi. Thank you for the opportunity. I just have one question, actually 2 questions, sir. One on your battery business, which is around 60% of your business, and you're still guiding for 15% growth. So you expect this year, battery will be more volume-driven or value driven?

Suvamoy Saha: See, I have not actually mentioned a 15% growth for battery. This is for the year that we have just gone by, where we had a 13.4% growth in batteries. So we believe that battery being quite a mature market, this year was a phenomenal growth for us because if you take in context that in the previous 10 years, we did not grow at all. We had 0% growth to have grown 13.4% these are fantastic achievement. Now we also must be realistic about how we deal with this mature market and I also mentioned in my opening remarks that the market is still flat. So, we must take a realistic approach towards this. So we think we would be, we are, at this point of time, aiming

for a sustained growth percentage for the coming years. Now if we can overachieve, fantastic. And this will be driven primarily through premiumization. We are not counting much on volume growth.

Dhruv Shah: Sir my next question is, can you just elaborate on your distribution strategy? Like how is the consultant helping you? And over last 1 year, how has it shaped up?

Suvamoy Saha: So we earlier used to work with many small distributors so they were 5,000 in number. We have cut down that string from 5,000 to 1,000. Now it seems very easy that you just cut off 4,000 out of that 5,000. So it had to be sort of done in a gradual manner so that our existing business does not get impacted. So over the last 6 months, I would say the team and our consultants, we work closely together in ensuring that we do the planning right. We have a scheme which is sort of practical, implementable and we executed it.

So today, we are down to 1,000 number of distributors obviously, as a result, the individual skills have gone up, and it will be more remunerative for them to do business with us rather than 5,000 small distributors who are doing very small business as a result to gear with the company for a long time, this being an old company, the distributors were also old.

But I don't think it was a great situation for them as well. So now we have made it, I would say, a pleasing proposition for the distributors, we have now decided to work with. Now at this stage, I would also like to add that those 4,000 distributors have moved out from our distribution scheme of things, direct distribution scheme of things, but they have become sub stockist to some of our remaining distributors, people who are still working with us. So basically, for a large part of the market, we have gone into a super sub-model and as a result, we have not lost anybody.

Dhruv Shah: So as a follow-up, sir, how is these 4 million reaches has played out over last 1 year? Have we increased or are we still there?

Suvamoy Saha: So we think 4 million outlet reach is adequate for our current scale of business. We will have to see how it goes in our way forward. So, our main focus, while we did the revised route to market was that we should not lose the footprint count of this 4 million outlets. And I'm happy to say that even the latest Neilson data shows that we have held on to that.

Moderator: Next question is from the line of Keshav Garg from Counter Cyclical PMS. Please go ahead.

Keshav Garg: Sir, I'm trying to understand that what is the threat that in your judgment, we are facing

from the likes of basically online retailers like Amazon, like they are also selling batteries prices under their own private label, Amazon basic at a far lower price than us. And since it's a well-defined product, sir, don't you think that a large portion of the market might shift towards Amazon?

Suvamoy Saha: So this is a, I would say, a more recent phenomenon in our country. The rest of the world has seen the same phenomenon for many, many years now. Branded play has not suffered on discount. So there would be some, I would say, consolidation in the market, whereby smaller players, smaller brands go out and online as people start using more online buying. But branded play has as the rest of the world proves the likes of the energizers, the Duracell, they have all existed and have their existing and thriving. So my answer to you would be that we do not feel unduly threatened by that because ultimately, branded play has its own play in any market.

Keshav Garg: Sir, and also, sir, 2 years back, the company wrote off huge amounts around Rs.650 crores in terms of intercorporate deposits to the earlier promoters. So any progress on recovery of anything out of that amount?

Suvamoy Saha: So those are now all in the domain of courts, this company has filed recovery proceedings again for all those amounts. And but you know in India, things take time. So they are all in the various stages of litigation.

Keshav Garg: Sir, but realistically, seeking, sir, do you expect any recovery whatsoever or we should just forget about it.

Suvamoy Saha: See, the company has taken full provision. Now whether we would be able to recover or not because this company has now no connection with promoters. So we would really not be in a position to give any qualified judgment of that in the matter.

Keshav Garg: And sir, lastly, just wanted to understand about the Chinese imports in the Indian dry cell market and also post the BIS and quality control orders, have those imports halted? Or are they still going strong? And what percentage of the domestic demand is created by Chinese imports now?

Suvamoy Saha: Very small. I mean I would say that it has become negligible because it is impossible for the traders to do business under those strict stipulations. So, we are no longer impacted by the dump Chinese imports in the battery segment.

Moderator: The next question is from the line of Priyanka Sarkar from Famy Ananta Capital. Please go ahead.

Priyanka Sarkar: Just wanted to figure out do we have any target when we will go net debt free?

- Suvamoy Saha:** So a very good question, and I know everybody asks that, but there is a journey, as I say, that if you see from FY20 to FY23, our debt has increased because of certain initiatives, route to market. But we certainly aspire that probably if we see that the kind of EBITDA margin we are looking into. So we are looking into that this could be the peak of the debt, okay? And from here, the expiration should be to reduce the debt year-by-year. But at this juncture, it will be very difficult to say that where the company will be debt-free. But of course, we are looking at a very close eye on the debt. And considering that this debt isn't at a peak level.
- Priyankar Sarkar:** Okay. Fair enough. And sir, the second question, I wanted to split kick in the alkaline and the carbon in out of Rs.860 odd crores approximately, what was the split of alkaline and carbons in batteries?
- Suvamoy Saha:** So carbon zinc is currently around 96%, alkaline in our portfolio, whereas the market is about 10% alkaline. So we are under-indexed in alkaline. And in the coming days, we would ramp that up. I covered that in my opening remarks that there of course, even as a market leader, we have 54% market of the total market, including alkaline. We are under-indexed in certain categories, alkaline being one. So we would ramp that up in the coming days.
- Priyankar Sarkar:** So can talk about the fast-growing segment we're expecting under the indication is more particularly under indexed?
- Suvamoy Saha:** I mean any under-indexed category will be faster growing than the rest of the business. It is not just alkaline. We are under-indexed also, let us say, in certain states, we are under indexed. So, we would naturally like to ramp up ourselves up in that state where we are under indexed. So that state will grow faster than the rest of the country.
- Priyankar Sarkar:** Right, sir. Sir, just one follow-up related to my first question on debt fee. I think we have some noncore assets. So are we planning to sell any of that? Or is it subject to the KKR getting resolved?
- Suvamoy Saha:** So, of course, there are no noncore assets, so to say. We all our assets are in productive use. And as it is this question is a little theoretical because today, the KKR matter does not allow us to do anything in terms of any sale of any noncore asset other than in routine course of business.
- Moderator:** Next question is from the line of Tanishka from Artha Group. Please go ahead.
- Tanishka :** Hello. I wanted to congratulate you on incredible financial results, secondly, thanks for taking my question. I just wanted to understand that there are some new changes

that we're doing in order to grow the company. So could you shed some light upon the capex requirements to capex investments?

Suvamoy Saha: Yes, the thing is that as we grow, there will be a time when we would be slightly shorter capacity because all this time, we had not been growing, so our capacity was adequate. And as we also tap into the under indexed segments, we would require a further capacity. This year, our capex requirements are not so great. But maybe this year, as in FY24, our capex requirements are not that great, maybe in FY25, we would require, I would say, a higher amount of capex may be around Rs.70-80 crores. Our normal capex goes at around Rs.25 crores and so at best, we would be requiring about maybe a little over Rs.35 crores this year, not more than that and in the coming year, maybe more.

Tanishka : I just wanted to understand that in in quarter 3, the battery was approximately 54.3%. This year is around 53.1%. So are we going to witness a normalization of our market share in the future? Or is it going to increase more?

Suvamoy Saha: So see, any company would like to increase its market share, so the reason that we are trying to tap into our under-indexed segments will help us I mean, obviously, we exist to increase our market share. We exist to increase our revenue. We exist to increase our profitability, right? These are normal things that businesses do, and we are no different. And so if we manage success in tapping to those under-indexed categories or segments within batteries, obviously, we'll increase our market share, and that is going to be our aspiration.

Moderator: Next question is from the line of Drisha Poddar from Carnelian Capital. Please go ahead.

Drisha Poddar: Hi. So wanted to understand that in the battery segment, so we are trying to increase the portion, which is the ASPs also part of a normal carbon in battery. So I wanted to understand what the difference in profitability between the 2 segments?

Suvamoy Saha: So alkaline represents the premium end of the market, where we are under indexed. So at this point of time also, Alkaline is only 10% of the total market. And we in our own portfolio, we are 4% to 5%, which we want to improve, it doesn't make any much because the number is being small, it doesn't yet make much difference to the overall profitability situation of the battery segment.

Drisha Poddar: On the lighting segment, like you mentioned, obviously, that in a future growth driver. And for the last 2-3 quarters, we've been seeing that as lighting even. So I wanted to understand from a medium-term perspective, we see what kind of profitability or EBITDA margin should we expect from that segment?

- Suvamoy Saha:** So at this in the financial year just concluded, we were a negative EBITDA. I would say, very slight negative EBITDA, you can say breakeven on lighting. We aspire to become at least a 5% EBITDA in the coming financial year, and then we'll see where it takes us because at this point of time, we simply do not have the scale yet to record or report large profitability. But as we grow scale, which we are attempting to do and which is going to happen, I'm quite confident about in FY24, will go to 5% and then try for the next step.
- Moderator:** The next question is from the line of Drashti Shah from ThinkWise Wealth Management. Please go ahead.
- Drashti Shah:** So I just wanted to understand that you said that shifting of the debt helped you in some cost savings because the new debt is at a cheaper rate? If you could just elaborate on that how much savings have you done in interest costs? And what's the new rate of interest versus the older one?
- Suvamoy Saha:** So there I get 2, 3 aspects of that. One, of course, the cleaned-up balance sheet and sooner, you can do that. Second is that moratorium period and third is the cost. So there are not much cost savings, which is around certain bps will be around 20-30 bps will be the interest, but the moratorium period started longer because our next debt payment for that other earlier lender we had, we have to start immediately repaying the debt. And since you have seen that our debt has increased, it was very difficult. So we don't want to go any other way. So that is why we simply got a three advantage, first of on cleaning up the book. Third, you got a little bit cheaper cost and you got the additional time period so that our investment in June does not get stopped and halt. So that is the all 3 reasons to go for changing this.
- Drashti Shah:** And the newer periods like the newer payment for that would be what the periodicity.
- Suvamoy Saha:** This is around 60-72 months.
- Moderator:** Next question is from the line of Vikas Shrivastav from RBC Financial Service. Please go ahead.
- Vikas Shrivastav:** Yes, thanks. I have 3 questions. The first one was on this use intercorporate loans from the previous promoters. Are we simply going through the motion because it's a cold promoter intercorporate, also when we pursue a debt in a commercial enterprise, what is my cost of pursuing it? And I think we should have some assessment of what are we looking at? Or are we just showing bad money after good. That was the first question. My second question was on the market size of the battery segment, which seems to be stagnant if some light or some view on where we are headed domestically, globally and the economy is growing, the middle class is growing, why

is the battery segment not growing.

Third question was on the arbitration with KKR. While I did hear that we are very keen to clear our name, but you also said that we have no core assets, so there's nothing to sell anyway. So the high court order doesn't bother you. And the other restriction really in this legal case is that you can't raise capital. So, are you, how does this court case adversely affect you or limit you in doing business in the next 2, 3 years? Let's take the worst case that this arbitration goes out and the promoters don't come to a settlement case. Those are the 3 questions.

Suvamoy Saha:

Okay, thank you. So may I again take your last question first. So as far as the KKR matter is concerned, the company, as advised by its counsel, it's very clear that we must make a robust defense of our case because we genuinely believe we have really nothing to do with that case. It happens between whosoever it happened between. We have no role to play, we were not a party, etcetera, etcetera. So we will continue to fight this case in a very, very robust manner, right? Then coming to what is this case doing in terms of impairment to business. Presently none. We as I said, we really do not have so-called noncore assets. We are sitting on all assets that we have are all in productive use today. Now whether tomorrow, that's a hypothetical question. If let us say, tomorrow the KKR case is not there, we have looked into making some realignment there, it is a hypothetical question. I will come to the capital risk part. Yes, certainly, that is an impairment. And that impairment is not affecting my business today.

But let us say, for the next 5 years, there is no option for capital raise that could become an impairment. Today, as our CFO has mentioned, we have had no problems in raising debt, but we don't want to do business on debt. We want to do business whereby either we generate the cash, or we get better sources, there is no charge to the P&L. So going forward, my answer is short. We have no issues regarding the case with our day to day running. But if let's say, the case was to go on for 5 years, 10 years, it could have an impact. So it is pretty much in our future zone. So I think I'll just stop at that. About the recovery cases against the promoters, the company is certainly putting up again, I think corporate governance requests that if something is owed to us, we should try our very best to recover that.

And the company is set about doing that but if you ask me if the cost very humongous, they are by and large the same case there is a lawyer who is doing it. And I mean it is not something one should really lose one sleep over. Coming to the size of the battery category, the battery market is a Rs. 3,000 crores market as reported by Nielsen, why it has not grown and it is contrary to you know what has happened in let us say, an economy which is 5 years ahead of us in China, which has reported decent

growth, per capita consumption is much, much higher. It is 5x our per capita consumption. It is simply because while we have a middle class, which is doing indulging in a lot of consumerisms, however, the device penetration in Indian households is abysmally low as compared to any other economy which is comparable.

As I said, China is a good example where there are so many devices, things like toys, electronic door locks, electronic safe, sensors, smoke detectors. There is plethora of uses, which they are making in their day-to-day lives, you would be surprised. I mean, nobody uses a key. I mean we still many of us use that old key to open our doors, there is nobody, everything is either a swipe card or it is a fingerprint and all of that uses battery. So, we are really behind the rest of the world in terms of device penetration into our household. As that happens, there is a huge headroom for us to grow for the market to grow.

Vikas Shrivastav: Got it. So basically, the fact is that there is some transition. But if I understand right, for the last two years, the market has been flat. Is that correct?

Suvamoy Saha: That's right.

Vikas Shrivastav: Also, what I'm hearing from you is that if the equity, if there was no restriction on you from the High Court to raise capital, would you have thought of raising capital today for strategic purposes rather than pick up debt? Or would you say that, that is an option which you would rather exercise 2, 3 years from now? Assuming for a minute, we came to a settlement tomorrow. And there was no restriction on you.

Suvamoy Saha: Okay. If let us say that case got sort of became nothing for, I mean we are relieved of that case, right?

Vikas Shrivastav: That's right.

Suvamoy Saha: Okay. So as I understand, our promoters are very keen to take their shareholding up, right? Now if let's say there was no restriction, they may still like to do that. And if they do that, what do we put the capital to use for? Maybe we will pay down debt to start with and deliver sales of the otherwise, as I said, we currently, whatever that we are planning, we are planning out of our own generation, including payment of date as per the repayment schedule. So there will be a time because our hands are full.

We are, we have plenty of stuff to do in our batteries, flashlights, and lighting categories. Plenty of stuff, which will keep us really, really very busy at least for the next 18 months. Now there will be a time when we must think of something new. Otherwise, we will not be able to sustain the growth momentum just on these 3

categories. Say 2 years then. At that point of time, maybe there will be a need of strategic capital. So we'll think about that as and when that comes, but we need to really get, have to get this case of our back.

Moderator: Next question is from the line of Dhruv Jain from Ambit Capital. Please go ahead.

Dhruv Jain: Thank you for taking my questions. Just had one question. So in at March end, we saw that your receivables really beat up and cash flow generation was a big peak. So if you could just throw some light on that?

Bibek Agarwala: Exactly this goes on a hands-on hand. One side, we have invested in the market on route to market and realignment of that. That is why data has mostly predominantly, if you see the one of the previous speakers has asked a question that almost Rs.60 crores increase in our receivables. And if you see that date also has increased equivalent amount. So that and we continue to stay invested in our advertisement and all other things.

So this is the way as I said, that we see the date has almost reached to our peak level and now all the journey has to be like last year, we have demonstrated the growth across our segments of business and, but now this year, we are playing that it has to be a profitable and cash flow generated growth. That is our internal team is taking the target. And last year also, as Mr. Saha has said, there are a lot of onetime investments. And on the other side, there's a material inflation. So all has gone other side. So at quarter 4, we have started seeing the material prices are softening. So we are keeping finger crossed that this year will definitely be our aspiration of double-digit starting at least a 10% to start with that EBITDA and then looking forward ahead.

Dhruv Jain: Okay. And your cost of the consumption will be there's going to be an impact of the contained cost, right? If you could just quantify that for us for FY24.

Bibek Agarwala: So that's exactly what I think a couple of times has repeated and I'll repeat once for you. And still the consultants are to engage with us. Some of the work is getting. But, it is not going to the latter part of the year. So annual basis, the cost is around Rs.22 crores, Rs. 25 crores if it didn't fall. So now you can imagine if we can offer them 2 quarters is going to half of that cost is going to save optimize. But they have added a lot of value in the entire ecosystem. Today, what we talk about the route to market and all, they have highly contributed to that journey because the change in management is very important in the new organization, especially a legacy organization. And I think we are all on right directions. And if this kind of growth momentum continues and kind of brand communication, I think we have the journey ahead.

Moderator: The next question is from the line of Rupen Masalia from RN Associates. Please go ahead.

Rupen Masalia: Yes, thanks for the opportunity. Congrats for a decent set of performance and gearing up the company for hopefully, future sustainable, high-quality growth. Now I have a couple of questions, like you have embarked on premiumization currently. So currently, I understand premium products across all 3 categories are very late. But going forward, maybe, say over the next 3 to 5 years, where do you see the proportion of premium products across categories. So if you can elaborate on that, that is part one. And secondly, it's on working capital because I understand that historically, the legacy battery business used to run on negative working capital. So I understand that due to renewed go-to-market strategy and revamping of distribution system. So going forward, what would be the working capital business vertical-wise. So these 2 are the questions.

Suvamoy Saha: So as far as the premium part of the business is concerned, we do have premium products already existing in our portfolio. For example, even in batteries, I would say today, see premium, premiumization is relative to the market. For someone who can afford a Rs.10 battery for him a Rs.20 battery is a premium product. So we do have products which prevail at Rs.10, which prevails at Rs.20-45, etcetera, etcetera. So we have that. So if we take Rs.10 to be a popular product, let us say, for example, then that is only 50% of our portfolio. 50% of the portfolio is all premium. People who are preferring to buy products at a much higher cost, maybe 2x or 5x to the cheapest option available to them. Similarly, in flashlights, you have products which is Rs.100, you also have products at Rs.1,000. So it is not that we are not in the premium.

So what we are trying to do is, can we push that Rs.10 guy to Rs.11. Can we push the Rs. 20 guy to Rs. 22? I'm just these are just numbers for the sake of emphasizing on my point. So we to come to an answer to your query, we already have at least 50% coming from the premium segment of any market in which you operate. And our journey is to keep on pricing on that. That is number one. Number two, with regard to working capital, you are very correct in observing that batteries used to be totally, I would say, neutral to negative, but we had no growth. So we had no growth.

We did business on cash. That was good. There's nothing. But today, we have taken growth as our mantra. In that, we are having to work on very many areas. We are trying to communicate. We have maybe pumping a little bit of credit to the market. But if you tell me on a directional basis, that should revert to, I would say, kind of a neutral working capital. Lighting would certainly require a big dollop of credit, which, in any case, that Rs.100 crores that you see contains a very large part of that as it is. So while Bibek, as he mentioned, he is trying to reduce the quantum because it is good

for us. But in lighting, we will continue to provide credit because that is a market practice. In batteries, we will certainly come to a neutral zone as we go along.

Bibek Agarwala: Just to add to Suvamoy, important things to note is that now the channel contribution has also changed. Earlier, if you see, we are predominantly on general trade, right? Right now, we are putting equal pitch either on modern trade or institutional business or e-commerce. These are not a cash channel business, right? So we are trying to put all the effort like as you rightly say that every penny investors should have some logical reasoning. So we are working and always aspiration to go back that the premiumization command, which you do in a general trade part of the business, that how can we quickly get back to our status, particularly a couple of quarter journey. And as we are keep coming to you every quarter, and we'll keep you updated how the progress is coming there.

Moderator: I now hand the conference over to the management for closing comments.

Suvamoy Saha: We have answered enough, I once again thanks everyone for attending this call. And we have a practice that we will meet and talk about our performance, our updates on a quarterly basis. We have done this for the last 5 quarters, and we'll continue to do so. Thank you.

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