Eveready Industries India Ltd.

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Information Update

This update covers the following –

1. Financial Results for the quarter ended September 30, 2008
2. Future outlook as per the understanding of Company Management
3. Profile containing historical and basic information on the Company

	Rs.Cr.	Rs.Cr.	Change (%)	Rs.Cr.	Rs.Cr.	Rs.Cr.
	Q2 08-09	**Q2 07-08**	**Gain/(Loss)**	**Q1 08-09**	**Q4 07-08**	**Q3 07-08**
Net Sales	219.13	225.31	(2.7)	219.52	193.20	226.06
PBDIT *	22.71	22.82	-	20.29	21.69	22.20
PBT *	3.11	3.29	(5.4)	2.79	1.89	2.03
PAT	2.26	1.83	23.5	3.12	(6.52)	(2.70)

* Only operational – excludes other income from sale of real estate/assets

Highlights of the quarter ended September 30, 2008

* As evident from the table above, performance during Q2 of the current year was flat. It is also evident that operations have stabilized at current levels over the last 5 sequential quarters.
* Price of zinc, which has a substantial influence on input costs, has been gradually easing over the last 5 quarters including the quarter under review. (Incidentally, it has fallen very sharply subsequent to that). However, newer pressure arrived in the form of rising prices of other commodities. There was also an adverse impact from a sharply depreciating Rupee from imports or materials linked to foreign exchange, which together account for nearly 40% of total consumption.
* It is also to be noted the benefit derived from zinc is getting considerably eroded on account of the battery product mix shifting from 'D' to 'AA' size batteries.
* Lower demand in response to earlier price increases on account of cost push continued to prevail in the battery business – YTD volumes for the current year were about 2 % lower than the corresponding period of last year.

Review of operations

Dry Cell Batteries

As mentioned briefly above, batteries went through significant price increases to offset material cost push. Cumulative price increases for the various battery types in the recent past ranged between 20 per cent and 50 per cent. It did not seem to impact consumers initially, but eventually such pricing measures met with stiff consumer resistance and demand started slowing down. Unfortunately, the price increases had to be persisted with due to input costs continuing to prevail at high levels. Such price increase attributable to cost push was last taken in January 2007. This de-growth was most pronounced in 'D' size batteries, which is mostly consumed in the price sensitive rural segment.

This trend of de-growth continued to prevail during the early part of the last financial year. Thereafter, a gradually improving and stable trend had set in sales volumes. Thus, by the end of the previous financial year the overall de-growth had minimized to just 2 %. While volumes showed some improvement in Q1 of the current year – albeit growth in the cheaper variety of 'AA', the same did not sustain in Q2 – as a result YTD volumes stood at 98 % - very much in line with the previous year's trend.

This phenomenon of volumes being affected was not unique to the Company but was experienced by the market as a whole. The Company's market share remained by and large unaltered at 52.3 % - 'Eveready' – 46.1 % : 'Powercell' – 6.2 % (AC Nielson : October 2007 - September 2008).

Flashlights

The phenomenon of consumer resistance to pricing actions was also very significant in the flashlights business. Similar to the trend in batteries, flashlights business also experienced de-growth of volumes. The impact was most significant in the 'brass' segment of flashlights – predominantly used in the rural areas.

As a mitigation measure and with a view to giving consumers a value-for-money option, the Company introduced a new class of flashlights. This new segment has popularly come to be known as the 'LED' segment due to usage of LED bulbs being used as the light source. The Company has been at the forefront of introduction of this new segment and has encouraged consumers to take to it due to the value proposition of lower battery consumption. While 'LED' flashlights do not fully meet all traditional consumer expectations, these have been taken on enthusiastically by the market.

From the Company's perspective, this measure is positive. The brass flashlights were profitable and were good for consumption of D size batteries but remained for long period of in-use with consumers. The new LED torches are equally profitable and displays much lower in-use period and is good for AA battery consumption. Current trends also indicate that this

is increasing overall torch user-ship significantly and will thus be positive to overall battery consumption.

The LED flashlights were introduced at the beginning of the last financial year. The improvement caused by it to flashlight volumes over the last 4 quarters can be seen in the table below.

Quarter	Sales volume as a %age of that of corrsp. quarter of previous year
Q3 07-08	154 %
Q4 07-08	131 %
Q1 08-09	197 %
Q2 08-09	195 %

Packet Tea

The packet tea business continued with its steady performance through leveraging of the distribution network of the Company. Current share of the market stands at 2 – 8 per cent in the various markets of the country. Sales volumes were in line with previous year in a very competitive market scenario. Turnover for the current quarter was at Rs.20.39 crores – at a growth of 6 % over the corresponding quarter in the previous year.

Compact Fluorescent Lamps

The Company started distributing compact fluorescent lamps (CFL) through the Company's distribution network during the current year. The launch of the products took place in June 2007. The products were received quite enthusiastically by the market.

The Company's distribution which is at a tangible differentiation from usual electrical trade, and brand 'Eveready' is set to create a long term value-enhancing proposition in this business. In recognition of this, the Company recently disengaged from the marketing arrangement it had with Phoenix Lamps Limited (PLL), which necessitated use of dual brands of 'Eveready' and 'Halonix' (the latter belonging to PLL) on the products. This has now enabled the company to use its own branding, distribution and sourcing strategies to harness the full potential offered by this business.

The business was in the process of transition during the early part of the current financial year due to the reason explained above. This has stabilized in the last part of Q2 and turnover for the quarter was at Rs.9.42 crores, significant part of which came from August and September (2007-08 turnover at Rs.44.22 crores). It is expected that the business will now operate at this level or higher from Q 3.

Insect Repellents

The launch of Mosquito Coils and Liquid Vaporizers over the target markets across the country was completed in the last financial year. The trade and consumer response to these products was encouraging. The business is still in a nascent stage with a market share varying between 1 per cent and 3 per cent in the various states. Turnover of Rs.3.14 crores was achieved during the current quarter.

Margin analysis

Margins were under squeeze over the past 2 years for reasons already explained earlier and due to the current shift of product mix. However, PBDIT margin over the last 5 quarters has been stable and in improvement over recent trend.

Rising price of zinc, which has a substantial influence on input costs, put severe pressure on margins. This has eased out over the last 5 quarters as would be seen from the data below. (Price of zinc has fallen very sharply However, newer pressure has arrived in the form of rising prices of other commodities. It has also to be noted that impact of zinc is linked to the now de-growing 'D' size batteries, whereas these other commodities have more linkage to the fast growing 'AA' size batteries. As a result, the benefit derived from zinc is getting considerably eroded.

Quarter	Average cost of zinc consumed at (LME equivalent $ per tonne)
Q2 07-08	3101
Q3 07-08	2954
Q4 07-08	2784
Q1 08-09	2178
Q2 08-09	1792

A more severe adverse impact has come from the depreciating Rupee which has impacted the import basket, which constitutes nearly 40 % of total material consumption.

In the overall, material costs were favorable by about 3 % of net sales in the current quarter as compared to the corresponding quarter of the previous year. However, there were marginal higher impact on expenses on account of salaries, A&P and Other expenses.

The following table with details of margin analysis will reveal that PBDIT margins have been stable at around 10 % of net sales over the last 5 quarters, which is a matter of some encouragement after the severe margin contraction suffered earlier.

As % to Net Sales	08-09 Q2	07-08 Q2	08-09 Q1	07-08 Q4	07-08 Q3
Materials cost incl. outsourced goods	61.74	64.78	64.70	65.68	64.08
Staff cost	9.22	7.80	8.76	7.08	8.57
Advt., promotions & market research	4.99	4.14	5.21	3.90	4.05
Distributions costs	4.66	5.16	5.42	4.72	5.57
Other expenses	9.06	8.01	6.68	7.46	8.01
Total Operating Costs	89.67	89.89	90.77	88.84	90.28
PBDIT *	**10.33**	**10.11**	**9.23**	**11.16**	**9.72**

* Reflects only operational PBDIT, i.e., excluding profits on sale of real estate/assets.

Current developments

- The Company entered into an MOU on August 29, 2007 with Housing Development & Infrastructure Limited (HDIL) for the transfer of its leasehold premises at Navi Mumbai for a consideration of Rs.115 crores. Necessary clearances are being obtained to complete the transfer. In the meanwhile, the Company had earlier received advance / EMD of Rs.61.50 crores and thereafter the balance amount on July 29, 2008, resulting in full recovery of the transaction value. The income effect for the transfer will be recorded in a following period on completion of relevant formalities.

- The Company has allotted 45,00,000 convertible warrants to Williamson Magor & Company Limited (a Promoter Group Company) on October 17, 2007. Each warrant carries an option of conversion into one equity share of Rs.5 /- at a premium of Rs.53/- per share, totaling to Rs.58/- per share. This option is exercisable within a period of 18 months from the above date in one or more tranches. An amount equal to 10% of the underlying value of the shares has been already received.

- As per amended Order of the Hon'ble High Court at Calcutta, the merger of the authorised capital of the erstwhile Powercell Battery India Limited (PBIL) with the authorised capital of the Company was permitted, subsequent to the amalgamation of PBIL with the Company. Necessary form was filed with the Registrar of Companies, West Bengal on September 15, 2008 and accordingly the Authorised Capital of the Company stood reorganised to 21,15,60,000 shares of Rs. 5/- each totaling to Rs. 105,78,00,000 (previously - 11,15,60,000 shares of Rs. 5/- each totaling to Rs. 55,78,00,000).

- Operations at the manufacturing facility at Cossipore, Kolkata was suspended from September 4, 2008, due to unjustified & illogical demands by a section of workers and in the face of very aggressive stand taken by them. This however had no impact on the operations of the Company, as supplies to the market were met by other units.

Distribution of Shareholding

Distribution of shareholding stood as follows as on September 30, 2008 –

Category	% of shareholding
Promoter Group	40.17
Mutual Funds	11.76
Banks,FIs and Insurance Companies	6.42
Foreign Institutional Investors	16.32
Public & Others	25.33

Outlook

The Company firmly believes that there has not been any change in the basic fundamentals of the business. Need for portable energy is intrinsic to mankind and there is no substitute to batteries for it on any practical commercial scale. The demand drivers continue to be the same and India still has good potential in batteries and flashlights as it consumes almost the lowest numbers of these products in the world. The recent downturn relates to the severe price hikes and the inability of the consumers to absorb the same immediately.

Current trends indicate that after the initial difficulty in adjusting to the new high cost regime the market is gradually coming back to consumption levels as determined by fundamental demand. As India gets economically more developed, device penetration into households will increase in line with the rest of the world, boosting battery growth. LED flashlights introduced by the Company are already proving this hypothesis. While this is the medium to long term prognosis, for the short term the present going has indications for volumes to return to normal levels within the foreseeable future.

Input cost related to zinc has eased off quite considerably and looks set to remain at current or lower levels in the immediate future. There will be adverse impacts off-setting this on account of rising cost of other commodities and a weakened currency. Overall margins will perhaps remain even on account of these larger economic factors.

The new products to be introduced over the next few months (including CFL) will improve business volumes and profitability.

Brief profile of the Company

Eveready Industries India Ltd. (Eveready) is one of India's leading FMCG Companies. Eveready possesses expertise in manufacturing, marketing and distributing a diverse range of products to the entire length & breadth of the country. Its portfolio comprises of dry cell batteries, rechargeable batteries, flashlights, packet tea and mosquito repellents. Its market share in batteries is 53 per cent (AC Nielsen – October 2007 - September 2008) and in flashlights about 76 per cent (Industry data – April – September 2008). It is a recent entrant in the packet tea segment. Its market share ranges between 2 – 7 per cent in the various regions where the products have been launched. Its share in the mosquito coil market varies between 1 - 3 per cent in the various markets where the product has been progressively launched in the recent past.

Eveready is the world's 3rd largest zinc carbon player, putting to the market about 1.3 billion units a year, catering to the entire range of equipments that need portable energy. Its rechargeable products cater to the cylindrical replacement market and cordless phones. It has a complete range of flashlights – LED, plastics, aluminium & brass. Battery and flashlight products are branded as 'Eveready', 'Powercell', 'Shakti' and 'Mahashakti'. Packet tea products are branded 'Tez', 'Premium Gold', 'Jaago' and 'Classic'. Mosquito Coils are branded 'Eveready PowerOn'. Eveready has recently commenced marketing of compact fluorescent lamps (CFL), under the brand 'Eveready PowerOn'.

Key strengths of Eveready lie in its 4 core assets – powerful brands led by the iconic 'Eveready', a distribution system that is deeply entrenched, its skill of efficient mass-manufacture and its human capital.

Brand 'Eveready' has already celebrated its 100 years of existence in India. Across generations 'Eveready' has emerged as more than a battery or a flashlight; it has emerged as an idea – that of trusted reliability of the enduring and the dynamism of the contemporary.

Eveready's manufacturing facilities are located at Chennai, Hyderabad, Lucknow, Noida and Kolkata. Its latest state-of-the-art battery plant has come up at Hardwar, Uttaranchal, which has a capacity of 360 million pcs of AA batteries. This plant is eligible for excise duty and income tax benefits.

Eveready's sales network is wide and comprises of 15 sales branches and 55 C&F points. It also comprises of a family of nearly 4000 distributors and a team of 1000 exclusive vans servicing retailers covering the length & breadth of the country. Eveready's products are available in about 3.2 million outlets, which gives it a retail penetration exceeding 65% in its class of outlets. Out of this, more than 1 million outlets are directly serviced by the Company's network.

Eveready's unique strength in distribution lies in its ability to access and service rural parts of the country. Eveready is a clear leader in its 2 mainstay businesses – batteries & flashlights.

It has taken an objective to scale up operations by adding new products to its range with a pan-Indian presence – cutting across the rural & urban divide. Towards this, products like packet tea and mosquito repellants have already been introduced. The latest in line is CFL to be followed up by other items on the anvil.

Important Notes :

1. Eveready's Investor Relations activities are co-ordinated by Ms.Tehnaz Punwani, Sr.General Manager & Company Secretary (tehnazpunwani@eveready.co.in).
2. Eveready may be contacted for any further information or clarification on Telephone No. +91-33-2288 4436 ; Fax No. +91 33 2288 4059.
3. This Update is being issued after the Board of the Company at its meeting held on October 24, 2008 has taken on record the financial results for the quarter ended September 30, 2008.
4. Some forward looking statements on projections, estimates or expectations are included in this update for better comprehension of the Company's prospects. Actual results may, however, differ materially on account of several economic or market related factors.
5. This Update is also available on the Company's website: www.evereadyindustries.com . In view of this, information in this Update is also available to the public and does not therefore constitute unpublished price sensitive information under the SEBI (Prohibition of Insider Trading Regulations, 1992.