EVEREADY
INDUSTRIES INDIA LTD.

Annual Report 2006-2007

Dear Shareholders,

The last financial year was really a mixed bag. On the face of it, it was disappointing- while the operations generated cash profit, but with depreciation the Company slipped into a loss. The disappointment seemed heightened as the general economic environment was full of positive developments. However, even during this difficult period for the Company, there were elements and processes set which would eventually make it a strong organisation. I will like to elaborate on both sides to this picture.

As for hard facts, the Company had a net loss of Rs. 13.43 crores during the year as compared to a net profit of Rs. 79.66 crores during the previous one. The continuing impact of materials cost push had an adverse effect on the margins of the mainstay products of the Company - dry batteries and flashlights. This also necessitated passing on of significant quantum of price increases to the consumer. These products have substantial consumership among the poorer segment of populace. They found it difficult to absorb these rapid increases and consequentially resorted to lowering or deferring consumption. This combined adversity of pressure on margins and lower volumes resulted in the above financial loss.

Moving on from this somewhat depressing position, I would now like to touch upon the positive elements, which fill me with optimism about the future success of your Company.

Throughout this difficult period your Company was able to maintain its market share position and this was possible only due to its initiatives on branding and distribution. Brand activities were done in an optimal manner as permitted by a situation when margins were already under pressure. Encouraging work was also done in the area of distribution and penetration level exceeded 3.5 million outlets all over the country.

The new state-of-the-art battery plant at Haridwar was commissioned on April 2, 2007. Construction done through this year was exactly as per schedule. This facility will not only add 360 million units to the dry battery capacity of the Company, it will also help improvement of margins by leveraging the free excise and tax benefits available to it.

Ground work related to diversification into new products was carried on at a high pitch and the Company is now ready with a slew of new products to be launched in the coming years. After its successful experience with packet tea and insect repellents, I look ahead for other new products to get in to your Company's basket, enabling it to gain scale through leveraging of brand and distribution.

Retention of human capital proved to be a major challenge during this year. Today's buoyant economy has a demand for human resources for which the present supply does not seem to be sufficient. Most organizations today are thus facing the challenge of human attrition. Your Company managed this position with its usual accent on processes which are friendly to its human capital. I am proud of the team of dedicated employees who passed this difficult period fully engaged to your Company's needs.

Your Company's subsidiary Powercell Battery India Limited (PBIL) also did not escape the market related phenomenon of demand slowing down in the face of price increases and margin pressure due to materials cost push. Yet PBIL managed decent volume growth during the year and was able to enhance its market share. In doing this, it achieved your Company's objective cut out for it as a measure to improve market dominance. It unfortunately incurred a net loss of Rs. 9.26 crores, which was the result of the phenomenon already explained. This position will change for the better with only a slight improvement in the market dynamics.

I firmly believe that there has not been any change in the basic fundamentals of the business. The demand drivers continue to be the same and the Indian market continues to offer major potential for growth being a consumer of perhaps the lowest number of batteries and flashlights in the world. The current downturn relates to a severe cost push and consequential price hikes which the consumers were not able to absorb immediately.

I expect that after the initial difficulty of adjusting to the new high cost regime, the market will gradually come back to consumption levels as determined by fundamental demand. Input costs will continue to put pressure at least in the short to medium term. However your Company has already taken adequate pricing measures and also resorted to metal hedging mechanisms. So the impact on this account is perhaps not going to be significant.

The new products planned will add scale and profitability to your Company in the coming years and will support its diversification model.

While we are coming off a difficult period, I can say with reasonable amount of confidence that all processes are in place for a quick revival and thereafter, sustained performance. I can say with hope that shareholder value will enhance in the years to come.

I wish to end this note by mentioning a few groups of people who provide the foundation to this Company. I once again mention the Company's employees who are continuously endeavouring to make it a more valuable one. I wish to thank all our customers and vendors who have stood by us. Lastly, very special thanks to all shareholders for their faith and spirit.

With warm regards

B.M. Khaitan
Chairman

Corporate Information

Board of Directors

Mr. B. M. Khaitan
Chairman (Non-Executive)

Mr. D. Khaitan
Executive Vice-Chairman and Managing Director

Mr. V. Bhandari
Mr. S. R. Dasgupta
Mr. S. Goenka
Mr. A. Khaitan
Mr. B. Mitter
Mr. D. A. Nanda
Non-Executive Directors

Mr. P. H. Ravikumar
Nominee of ICICI Bank Limited

Mr. A. Roy
Mr. S. Saha
Wholetime Directors

Sr. General Manager Legal & Company Secretary
Mrs. T. Punwani

Auditors
Deloitte Haskins & Sells

Registered Office
1, Middleton Street
Kolkata - 700 071
West Bengal, India
Phone : 91-33-22883950
Fax : 91-33-22884059

Corporate Office
2, Rainey Park
Kolkata - 700 019
West Bengal, India
Phone : 91-33-24559213
Fax : 91-33-24864673

www.evereadyindustries.com

Contents

Annual Report & Accounts

Report of the Directors

For the financial year ended March 31, 2007

Your Directors are pleased to present the Annual Report, together with the audited Accounts of your Company for the financial year ended March 31, 2007.

Review of Perfomance

Financial results are summarized below : (Rs. in Crores)

	2006-07	2005-06
Net Sales	772.52	732.81
Other Income from operations	2.41	2.06
Profit from sale/retirement of real estate/assets	0.58	76.64
Provision no longer required written back	7.82	4.25
Total Income	783.33	815.76
Total Expenditure adjusted for increase/decrease of stocks	735.41	648.36
Profits before Depreciation, Interest and Taxation	47.92	167.40
Depreciation	19.95	18.31
Interest and Finance Cost	40.33	44.25
Exchange Fluctuation	0.84	5.35
Profit/(Loss) before Taxation	(13.20)	99.49
Provision for Taxation including Fringe Benefit Tax	0.23	19.83
Profit/(Loss) after Taxation	(13.43)	79.66
Profit/(Balance) brought forward from previous year	14.49	11.31
Balance available for appropriation	1.06	90.97
Which the Directors recommend for appropriation as under :		
a) Proposed Dividend	-	14.45
b) Tax on proposed dividend	-	2.03
c) General Reserve	-	60.00
Balance carried forward to Balance Sheet	1.06	14.49

(Previous Year's figures have been regrouped/rearranged where necessary)

Net sales for the year were higher by 5.4 % over the previous financial year. However, Profit before Depreciation, Interest and Taxation (PBDIT) was lower at Rs.47.92 crores as compared to Rs. 167.40 crores in the previous year. Ignoring extra-ordinary income, PBDIT from operations stood at Rs 47.34 crores against Rs. 90.76 crores in the previous year.

The lower PBDIT from operations was contributed by a very steep and unprecedented increase in raw material prices and lower volumes due to consumer resistance to price increases necessitated by the cost push.

Dividend

Your Directors considered it prudent not to recommend any dividend for the year under review in view of lack of profits.

Operational Review

Batteries and Flashlights

The operational performance of your Company during the year in review was marked by continuing steep & unprecedented increase in raw material costs – mainly that of zinc – which your Company uses in significant quantity in the manufacture of batteries and also brass flashlights.

This cost push not only put pressure on margins but also necessitated taking price increase actions to mitigate the impact. The series of these pricing actions met with stiff resistance from the consumers. This manifested itself in consumers lowering or deferring consumption, which resulted in lower sales volumes. The combined impact of cost push and lower volumes resulted in poor financial results.

Your Company believes that the phenomenon as explained above is only a temporary one caused by assignable reasons beyond its control. The pillars behind your Company's sustained good performance over time continue to be its fundamental strengths on distinct quality edge, penetrative distribution and effective marketing. These strength areas will eventually take the Company to a path of sustainable growth and accordingly these were persisted with during the year under review.

Your Company met the schedule of construction of its new state-of-the-art plant at Haridwar during the year under review and it eventually commenced commercial production on April 2, 2007 – as per plan. The plant will not only augment battery capacity by 360 million units, but also expand margins due to excise and tax benefits available to it.

The manufacturing operations of your Company continued to focus on total quality management, safety, energy conservation and cost control. This helped your Company in achieving manufacturing excellence.

Green Star Quality Circle of Hyderabad unit won the excellence award in the "20th National Convention of Quality Circles", held at IIT Kanpur.

As mentioned in the last Report for the year ended, March 31, 2006, the EMD manufacturing operations at Thane, Maharashtra had become completely un-remunerative on account of higher quality imported EMD being available in the market for battery manufacturing at costs lower than the said EMD manufacturing costs. Accordingly, the EMD operations had been suspended and as a measure of cost protection, since the same was uneconomical and unviable, actions were put in place by which the manufacturing facilities was totally closed from the close of March 31, 2007.

Packet Tea

The packet tea business of your Company continued to leverage the wide and deep national distribution reach. The business had a value growth of 17 %, which was contributed by a very healthy volume growth of 9 %. The market continues to be severely competitive. However, your Company remains focused on this business as a driver for revenue growth.

Insect Repellents

During the year under review, your Company diversified its product portfolio in to a new product range, viz., insect repellents. This is in line with the Company's plans to grow organically in newer FMCG products using its distribution chain. Mosquito coils are the first products in the repellents range of products.

The criterion applied for the selection of this product range included the large size of the insect repellent market – given India's perennial problems with mosquito and attendant diseases. Large-scale usage of coils in the rural mass market also was of particular interest, where your Company's distribution network is extremely strong. The launch of the product took place close to the beginning of the year under review and this was the first year of operation. Initial response to the launch was encouraging and this segment will offer handsome revenue growth and profitability for the Company in future.

Prospects

Financially, the year under review was a disappointing one. The immediate targets for the Company are a swift revival and thereafter create a path for sustainable growth. This seems quite within realms of feasibility for a number of reasons :

- The buoyant India economy will sustain consumerism growth, which will benefit the FMCG segment. Your Company will take advantage of this growth.
- It is firmly believed that there has not been any change in the basic fundamentals of the market. The demand drivers and the potential offered by the presently low-consuming Indian market will continue to offer major potential for growth.
- After the consumer's initial difficulty in adjusting to the new high cost regime, the market will gradually come back to the consumption levels.
- Input costs will continue to put pressure – at least in the short to medium term. However, your Company having already taken adequate pricing measures and its metal cost hedging mechanisms will ensure perhaps only an insignificant impact.
- Your Company's bouquet of products is uniquely positioned to address consumer needs at the base of the hierarchy of needs. New people coming to consumerism will easily take to these products.

- The new plant at Haridwar will expand margins due to excise duty benefits and will render higher net profitability on account of income tax being free.
- Your Company's efforts in diversifying into new products will add scale and profitability. To this effect your Company entered into an agreement with Phoenix Lamps Ltd. for sales & distribution of the latter's General Lighting Lamps (GLLs) excluding automotive applications under the brands of "Halonix" from Phoenix & "Eveready".

Issue of Convertible Warrants on preferential basis

Your Company had issued and allotted 67,50,000 Convertible Warrants on a preferential basis to 17 proposed allottees on October 5, 2005. During the year under review, three of the allottees exercised part/full of their respective options so as to convert a total of 9,40,000 convertible warrants out of the convertible warrants held by them respectively and consequently 9,40,000 equity shares of Rs. 5/- each at a premium of Rs. 90/- per share i.e. at an aggregate price of Rs. 95/- per share has been allotted to the said allottees on May 11, 2006 and September 27, 2006. Accordingly, the share capital of the Company as at March 31, 2007 stands increased to Rs.36,34,36,300/- represented by 7,26,87,260 equity shares of Rs. 5/- each. The said shares have been listed at the Stock Exchanges. Proceeds on this account were utilized to pay down debt.

The Convertible Warrants were convertible at the sole option of the Warrant holder within a period of 18 months from the date of allotment of the warrant (i.e. April 4, 2007) in one or more tranches and the amount of 10% paid on the date of allotment of the Warrants was to be forfeited if the option to convert is not exercised. Accordingly, a sum of Rs. 5,51,95,000/- in the aggregate being 10% of the price of the underlying equity shares @ Rs. 95/- per share which was received from the proposed allottees has been forfeited on the relevant date.

Subsidiary Company

The consolidated accounts presented under this Annual Report include the financial numbers of your Company's wholly owned subsidiary Powercell Battery India Limited (PBIL) for the year under review. The statement under section 212(3) of the Companies Act, 1956 is attached.

PBIL is the fourth largest player in the battery market. It has come to this level within a very short period of time and has built up a distribution network which is deep and penetrative. PBIL's share of the dry battery market when considered with that of your Company, makes a formidable combined share.

PBIL's performance in the recent past prior to being taken over by your Company in 2005-06 was somewhat depressed due to several constraints. In the year under review, while PBIL made decent gains in both volume and market share, financially it could not escape the impact of the material cost push as explained earlier. Accordingly, PBIL had a net loss for the year at Rs.9.26 crores (including reversal of deferred tax asset of Rs.4.91 crores as required under the relevant Accounting Standard) as compared to the net loss of Rs.1.88 crores in the previous year.

However, a quick turn around will be possible with marginal shift in the market dynamics. All parameters indicate to a successful future of this subsidiary with great benefits of synergy between it and your Company.

Your Directors have, at the Board Meetings held on April 13, 2007 and May 11, 2007, approved and modified, respectively, a Scheme of Amalgamation u/s 391 and 394 of the Companies Act, 1956, for the purpose of amalgamating PBIL with the Company, effective April 1, 2007. This Scheme is subject to the approval of the Stock Exchanges, Shareholders and requires sanction of the Hon'ble High Court at Calcutta. The shareholders will be informed of the details in due course.

Finance

The financial position of your Company remained somewhat tight given its operating performance.

Despite this difficulty, your Company met its financial commitments in servicing debt and repayments thereof, albeit marginal delays in a few instances. Your Company was also able to meet the requirement of capital expenditure for its new plant at Haridwar as a result of which a timely commissioning of the plant was possible.

Employee Relations

One of your Company's key strengths is its people. Relations with employees remained cordial and satisfactory. Your Board would like to place on record its appreciation of employees for their contributions to the business.

Your Company believes in a system of Human Resource Management which rewards merit based performance and playing an active role in improving employee skills. Actions during the year under review were supportive of this policy.

The Eveready Academy of Sales Training (EAST) continues to place successful students in the management cadre of your Company.

A statement of particulars of employees as required under section 217 (2A) of the Companies Act, 1956 forms a part of this report as a separate Annexure. In terms of section 219 (1)(b)(iv) of the Act, this Report is being sent to all Members without the said annexure. Any member interested in taking inspection or obtaining a copy of the statement may contact the Secretary of the Company at its Registered Office during working hours.

Public Deposits

Deposits amounting to Rs.8.89 lakhs due for repayment remained unclaimed by depositors as on March 31, 2007. The concerned depositors have been intimated for completing the procedure for either repayment or renewal.

Exports and Foreign Exchange Earnings and Outgo

During the year under review, your Company exported batteries of 61.86 million pcs and flashlights of 0.41K pcs against 51.30 million pcs and 479.44 K pcs respectively in 2005-06

Rs. Lakhs

	Year ended 31.03.2007	Year ended 31.03.2006
Foreign Exchange Earnings	1,424.73	959.98
Foreign Exchange Outgo	14,977.45	9,228.72

Conservation of Energy and Technology Absorption

A statement giving details of conservation of energy and technology absorption in accordance with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, is annexed.

Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Directors state as follows:

1. That in the preparation of the annual accounts for the financial year ended March, 31, 2007, the applicable accounting standards had been followed with no material departures;
2. That the Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;
3. That the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. That the Directors had prepared the annual accounts on a going concern basis.

Directors

In accordance with the Articles of Association, Mr. B.M. Khaitan, Mr. S. Goenka and Mr. S Saha will retire by rotation at the forthcoming Annual General Meeting, and being eligible, offer themselves for reappointment.

Mr. S. R. Dasgupta was appointed as Additional Director by the Board with effect from May 11, 2007. In terms of Article 116(1) of the Articles of Association of the Company he holds office until the forthcoming Annual General Meeting. Notice in writing under Section 257(1) of the Companies Act, 1956 has been received from a Member signifying his intention to propose Mr. Dasgupta for election to the office of Director.

Mr. A. Roy's term as Wholetime Director expired on December 7, 2006. Mr. Roy has been given another appointment as Wholetime Director for two years effective December 9, 2006, subject to the approval of the shareholders at the Annual General Meeting of the Company and the Central Government.

Mr. P.K. Kaul who was appointed a Director of the Company on May 4, 2001, passed away on February 28, 2007 at Noida, after a brief illness.The Board places on record its profound sorrow at the demise of Mr. P.K. Kaul and its appreciation of the contributions made by him during his tenure as a Director to the Company.

On a Reference Application made by the Central Government to the Company Law Board (CLB) under Section 408 of the Companies Act, 1956, the CLB, by an order dated December 20, 2004 directed the Central Government to appoint three Directors on the Company's Board for three years. As the CLB's order suffers from various legal infirmities, the Company, based on legal advice, has challenged this order of the CLB before the High Court at Calcutta, which has, by an interim order, stayed the operation of the CLB's order. The stay is continuing.

Auditors' Report

In regard to the Managerial Remuneration, referred to in the Auditors' Report, Note No. 11 in Schedule 18 to the Accounts is self explanatory.

Auditors

Messrs. Deloitte Haskins & Sells retire as Auditors at the conclusion of the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment.

Management Discussion and Analysis Report and Report on Corporate Governance

As required in terms of the Listing Agreement with Stock Exchanges a Management Discussion and Analysis Report and a Report on Corporate Governance are annexed.

For and on behalf of the Board

Kolkata
11th May, 2007

B. M. Khaitan
Chairman

Management Discussion & Analysis

The Business

Eveready Industries India Limited (EIIL) is one of India's most renowned and enduring FMCG companies, with the operations entrenched in the country for over 100 years. Over the decades, it has strengthened its position as the dry cell battery and flashlight industry market leader in the second most populous country in the world.

The Company's contemporary product portfolio comprises the following :

- Dry cell batteries, flashlights and rechargeable batteries under brand 'Eveready'.
- Packet tea under brands 'Tez', 'Jaago', 'Premium Gold', 'Classic'.
- Insect repellents under brand 'Eveready Poweron'.

The Indian operations started through import of dry cell batteries and then marketing the same across major Indian cities. This eventually led to setting up manufacturing facilities and a distribution network across India. Subsequently, this manufacturing presence was integrated forward into the manufacture of flashlights, the largest consumer of batteries.

Over time, the Company evolved into the largest dry cell battery player in India with a market share of 45.6 per cent (Source: AC Nielsen) and virtually the only flashlights player in the market.

The Company possesses one of the widest and deepest distribution networks among FMCG companies in India, reflected in its premium brand equity and customer loyalty. To leverage the growth of this pan-national distribution pipeline, the Company extended its product category to the marketing of packet tea and insect repellents. The Company's existing share of packet tea market is limited. However, the Company expects that quality level of its product and its strength of retail penetration will eventually translate into a significant market share over the foreseeable future.

Mosquito coils were launched by the Company close to the beginning of the year under review. The first year of operation was encouraging and the Company expects to garner significant share in this market within a reasonable time frame based on its rural reach and tangible differentiation from other products available in the market.

Given the buoyant Indian economy, robust product outlook and a proactive management, EIIL expects to strengthen its presence across these products through increasing value and volumes.

India Economic Overview

The off-take of the Company's products is influenced by the health of the Indian economy. According to the Economic Survey 2006-07, the country's economy was estimated to have grown at a healthy 9.2 per cent during the year under review.

The country took rising input material costs of non–ferrous metal, petroleum etc. in its stride and key sectors like infrastructure, steel and cement grew at a healthy trot. But for the agriculture sector, which grew at a modest 2.7 per cent, the overall economy would have turned out even better results. *This healthy growth in the economy led to higher income levels and* consequently growing consumerism. The FMCG sector is set to take full advantage of this.

FMCG Industry In India

The past proved to be challenging for India's FMCG sector on account of volatility in agricultural incomes, increased competition, price discounts and the growing affordability of lifestyles and durable products. This led to concerns on retaining the share of consumer wallet for FMCG goods.

However, this trend has significantly changed during recent times, with many FMCG categories showing healthy growth. The sectoral outlook continues to be positive mainly on account of the projected increase in per capita income. It is now firmly believed that the positive factors of the economy is finally having its impact on per capita consumption pattern. All parameters seem to indicate that this trend is sustainable over the coming years.

Batteries

Industry size and structure

The Indian market for dry cell batteries is estimated at 2.5 billion pieces by volume and Rs. 15 billion by value. The battery market has only a few players. Out of which EIIL has a market share of 45.6 per cent (Source: AC Nielsen), and the next player lags by more than 17 per cent points.

During the year under review however, the market had the adverse impact of a very aggressive rise of the input material costs, particularly that of zinc. These adverse impacts had to be passed on to the consumer. A significant part of the dry battery market is in the rural and poorer segments of the economy, which are resistant to stiff price increases. The consumers reacted adversely to these price increases and resorted to reducing or deferring consumption. This resulted in a market de-growth of about 8 per cent in battery volumes during the year.

This phenomenon was most significant in the 'D' size battery segment, which had to bear the highest impact of the cost push. These batteries are predominantly used in the price-resistant rural sections of the society and saw the largest quantum of volume drop. 'D' segment de-grew by nearly 21 per cent. On the other hand, the 'AA' batteries which are more in use in the urban areas and historically the growth champion had a positive growth of 9 per cent. Handsome growth exceeding 20 per cent was seen in the newly emerging 'AAA' segment – however it has to be seen in the perspective of this growth coming off a smaller base.

As stated before, the growth rates for the year under review should be taken to reflect temporary consumer sentiment and is not seen to have any permanent impact.

The segment pattern within the industry underwent change on account of the relative growth phenomenon as explained above. The share of 'D' size batteries reduced to 44 per cent and the 'AA' size batteries increased towards the 50 per cent mark.

The split of technology within the dry batteries market also remained constant with zinc carbon batteries virtually possessing the entire market with 99 per cent share. The alkaline batteries have minimal share of the market at 0.5 per cent and are present in only some premium urban outlets. Rechargeable batteries, which have the balance 0.5 per cent of the market seems to have made its mark on a loyal customer base but rising slowly.

Offtake of batteries is driven largely by growth in the offtake of its applications. A growing need for portable power and the advent of a number of battery-operated gadgets catalyse consumption. Since these address everyday use, batteries have enjoyed a non-cyclical demand and have been largely untouched during the past general downturns. The phenomenon of consumption reducing on account of large-scale price increases is unique to the year under review and is expected to be only a temporary one.

Performance review

Volume in the battery market in India was estimated to have reduced by 8 per cent. Sales volume of EIIL also reduced by a similar margin. As a result, the market share pattern remained by and large consistent with the previous year – with EIIL remaining at 45.6 per cent. (Source: AC Nielsen).

In the product mix of EIIL in the year under review, 'D' size had a share of 47 per cent and 'AA' at 45 per cent. During the year, the 'D' segment degrew by 21 per cent and 'AA' grew 12 per cent.

Marketing and distribution

The Company continued to put emphasis in strengthening its distribution network. Of the total FMCG universe of 7.3 million outlets, penetration of batteries stocking universe was at 70 per cent. Eveready batteries were stocked in 66 per cent of such outlets, higher than any other battery brand by a wide margin.

Eveready's brand campaign featuring 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 a latent potential for sustainable 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 convenience have resulted in proliferation of gadgets (remote controls, torches, toys, cameras, FM radio sets and portable music systems) run by batteries.

The Company's 'D' segment is being driven primarily by a need for light (flashlights) and entertainment (radio) in rural India. The proven durability and quality assurance of the Company's brand will continue to capitalize on this longstanding opportunity. Growth in the 'AA' segment will continue to be fuelled by proliferation of clocks, remote control devices and growth of newer devices across both rural and urban India. The new 'AAA' segment will take higher share of the battery market, with introduction of smaller size devices.

Besides, the introduction of high drain equipment (digital cameras and CD players) is expected to enhance the demand for more powerful rechargeable batteries. The Company reinforced its presence in this segment by becoming the first organized entrant. EIIL expects rechargeable to be one of the drivers of the Company's revenues in the future.

Batteries do not face any serious threat because they are an item of recurring use, providing portable energy at an affordable cost. EIIL is adequately protected from competition due to its enduring brand equity, tangible quality and ease of availability due to its deep distribution.

Cheap imports have also not proved to be a threat because of their inherently poor quality. While these low cost products did invite initial use on the basis of the price differential, their sustained use is unlikely as price and quality have been proved as directly proportionate.

Alkaline batteries, popular in the West, also do not pose a threat because of price-sensitive nature of the Indian consumer leading to a mere 0.5 per cent share of the market despite being present for over 12 years. In any case EIIL has presence in this segment and will be able to participate in any opportunity the market presents.

Given the overall positive scenario, a tangible threat to battery consumption lies in making the product unaffordable to poorer segments of the economy, as was evidenced in the year under review (explained more fully in the next section).

Risks and concerns

Aggressive raw material price increase represents an area of concern. A key raw material, Zinc, grew by more than 100 per cent during the course of the year under review. This of course is a general phenomenon, not limited to EIIL alone. The Company mitigated the adverse impact by passing this to the market through a series of price increases. Yet, there were time-lags between incurring of the increased cost impact and implementation of the price increase. This kept margins under continuous pressure.

The more disturbing side to this phenomenon was the products becoming unaffordable to large sections of the consuming class due to the above aforesaid price increases. There was finally stiff resistance to these and consumers decided to reduce or defer consumption.

There has, however, not been any change in the basic fundamentals of the business. The demand drivers continue to be the same and the Indian market continues to offer major potential for growth being a consumer of perhaps the lowest number of batteries in the world. The current downturn relates to a severe cost push and consequential price hikes which the consumers were not able to absorb immediately.

It is expected that after the initial difficulty of adjusting to the new high cost regime, the market will gradually come back to consumption levels as determined by fundamental demand. Input costs will continue to put pressure – at least in the short to medium term. However EIIL has already taken