Corporate Information

Board of Directors

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

Mr. D. Khaitan
Vice Chairman (Non-Executive)

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

Mr. A. Saraf
Nominee of ICICI Bank Limited

Mr. S. Saha
Mr. Amritanshu Khaitan
Wholetime Directors

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

Auditors
Deloitte Haskins & Sells

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1, Middleton Street
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West Bengal, India
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Report of the Directors

For the financial year ended March 31, 2012

Your Directors are pleased to present the Annual Report, together with the audited Accounts of your Company for the financial year ended March 31, 2012.

Review of Performance

Financial results are summarized below : ₹ Crores

	2011-12	2010-11
Net Sales	**976.20**	950.42
Other Income from Operations	**4.10**	1.02
Total Income from Operations	**980.30**	951.44
Total Expenditure adjusted for increase/decrease of stocks	**929.77**	856.74
Profit/(Loss) from Operations before Other Income, Depreciation, Finance Costs, Exceptonal Items and Taxation	**50.53**	94.70
Other Income	**7.54**	9.58
Profit/(Loss) from Operations before Depreciation, Finance Costs, Exceptional Items and Taxation	**58.07**	104.28
Depreciation	**24.18**	24.53
Finance Costs	**36.09**	33.37
(Loss)/Profit before Exceptional Items and Taxation	**(2.20)**	46.38
Exceptional Items	**76.84**	0.29
(Loss)/Profit before Taxation	**(79.04)**	46.09
Provision for Taxation	**0.81**	6.72
(Loss)/Profit after Taxation	**(79.85)**	39.37
Balance of Profit/(Loss) brought forward from previous year	**33.21**	38.06
Amount available for Appropriation	**–**	77.43
Which the Directors recommend for appropriation as under :		
- Proposed Dividend	**–**	3.63
- Tax on Proposed Dividend	**–**	0.59
- General Reserve	**–**	40.00
Balance carried forward to Balance Sheet	**(46.64)**	33.21

Net sales for the year were higher by 3 % over the previous financial year. Due to factors explained later in this report, Profit before Depreciation, Interest and Taxation (PBDIT) before exceptional items was however lower by 44% at ₹ 58.07 crores (previous year ₹ 104.28 crores). With depreciation of ₹ 24.18 crores (previous year ₹ 24.53 crores) and interest / exchange fluctuation charges of ₹ 36.09 crores (previous year ₹ 33.37 crores), Loss before Exceptional Items and Taxation came to ₹ 2.20 crores (previous year Profit ₹ 46.38 crores). With a charge of ₹ 76.84 crores in exceptional items this year (previous year ₹ 0.29 crore), Loss after Taxation stood at ₹ 79.85 crores for the year against a corresponding profit of ₹ 39.37 crores in the previous year.

The year was a challenging one for operations - in terms of market being sluggish and incidence of adverse costs from both input materials and overheads. The operating results are indicative of these adversities.

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

Batteries went through a chequered history over the last 5 years. Unprecedented cost push necessitated significant price increases. This being a functional product, demand bears a very strong elasticity to price. The consumer resistance to the price increases resulted in significant slow-down of this market. The sluggishness in the general economy did not help matters.

The segment which suffered the most from this impact was the 'D' size segment, which was at one time the major product segment in batteries and was relatively more expensive than other cylindrical batteries. The consumer resistance manifested in their lowering usage of appliances powered by 'D' size batteries. This virtually obliterated 'D' size incandescent flashlights, which were till then very popular. Consumers changed over to flashlights with LED bulbs using 'AA' batteries (more fully covered subsequently).

This trend of de-growth in 'D' batteries continued in the current year at a rate of 9 %. Despite this, battery volume remained flat in the overall, thanks to the growth in other segments - led by 'AA' and 'AAA'.

The market share positions of the major players remained unaltered during the year under review despite the various market changes taking place with your Company's share being at 50% (Company estimate).

The last 5 years had also seen rapid changes in the flashlights market. This segment also experienced major price impacts being passed on due to cost push. Combined with higher battery prices (as explained earlier), this led to strong consumer reaction. In addressing that, your Company started introducing a range of value-for-money, smart and efficient flashlights using 'LED' as the light source option (as opposed to the then prevalent incandescent bulbs). These flashlights mostly used 'AA' batteries (as opposed to 'D' batteries earlier).

Initially introduced as a value offer, this segment eventually became the standard and thereafter evolved as life-style products - in multifarious styling & color, across the aesthetic range and at several price points - both premium and popular.

From the Company's perspective, this measure is positive. The earlier flashlights using incandescent bulbs (mainly 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 battery consumption (mainly 'AA').

These new generation flashlights took the consumers' fancy as these were introduced about 4 years back. The first 2 years saw significant growth in flashlights sales, jumping from a level of 12.82 million units in 2007-08 to 27.03 million units in 2009-10, a growth of more than 110 % in 2 years.

However this trend could not be sustained thereafter and during the current year, sales volumes grew by a modest 3.8 % - albeit on a much broader base. Apart from growth becoming slower due to higher penetration, the market was also impacted by the influx of look-alike grey market products in the market. Counter measures have been put in place to reverse this trend, to the extent possible.

Your Company's share of the organized flashlights market remained at 76% (Company estimate).

It is also worthwhile to mention that input costs rose during the current year as compared to the previous year. The adverse impacts came from major materials used for manufacture and also a weakening rupee. Efforts were made to recover this adverse impact from the market - but this was only partially successful as the demand of these product categories bear strong elasticity to price. Also, higher cost impacts came from advertisement spends necessary to maintain brand salience and other overheads riding on an inflationary economy. The combined effect of these was a reduction in the margin by almost 5% of net sales value.

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 efficiency in the manufacturing function.

Lighting Products

The Company started marketing of compact fluorescent lamps (CFL) and General Lighting Service (GLS) lamps in the recent past. These products have found excellent fit to the brand 'Eveready' and 'Powercell'. The Company is distributing these products through its existing distribution channel, primarily comprising of groceries and general merchants. This is tangibly different from the usual electrical trade. This has given the advantage of a quick entry to this market - but has the obvious disadvantage of not being amenable to the scale of the electrical trade.

Net sales for the current year stood at ₹ 102.34 crores - a growth of 12% over the previous year at ₹ 91.38 crores.

This growth in turnover was achieved despite the fact that the Company consciously restricted sales of CFL bulbs to a few geographies (UP and Bihar) where the phenomenon of returned products was found to be on the rise - and beyond acceptable levels. This market traditionally works on warranties and if returns are higher than the acceptable norm, it is essentially due to the poor quality of power, on which the Company has little control.

This step was necessary to avoid impairment to profitability. However, sales have now stabilized on this revised orientation and the position is expected to improve further from hereon.

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 1 - 5 per cent in the various markets of the country. Focus is currently being given to make the business profitable. As a compromise, some marginal turnover was sacrificed. Sales turnover for the current year stood at ₹ 72.42 crores - at a marginal decline against that of the previous year at ₹ 73.34 crores.

Subsidiaries & Consolidated Financial Statements

Your Company has 82% (previous year 80%) of the controlling stake in Novener SAS (Novener), France which in turn controls Uniross SA, a French Company, which along with its subsidiaries, is engaged in the marketing of rechargeable batteries and allied products, having presence in various parts of the world and particularly strong in Europe. The above subsidiary was acquired 3 years back with a view to gain access to other geographies, where your Company has no presence - in particular, Europe, South East Asia and parts of Africa. Uniross was facing financial difficulties at that time and it was thought that it could be quickly nursed back to sustainable profitability.

Unfortunately, the dim economic situation prevailing in Europe and overall sluggish demand of the rechargeable category world-over, did not allow the quick turn-around that was planned, despite the best of efforts. During the year under review, Novener continued to fare poorly. It continues to be loss making, though, major restructuring exercise was carried out to reduce costs.

The current global economic environment - especially in the European context - may hinder Novener to achieve a turn-around in the foreseeable future. Consequently, with the possibility that your Company may not be able to recover its investments, as a measure of prudent accounting and governance, a provision of ₹ 75.00 crores has been made towards (a) diminution in the carrying cost of its investments; (b) amounts advanced till the year end and (c) certain anticipated obligatory payment commitments, and the charge for the same is included under "exceptional items" in the standalone financial results.

Novener's operations to your Company meant an addition of ₹ 122.55 crores in net sales (previous year ₹ 129.45 crores) and adding a net loss of ₹ 7.89 crores (previous year ₹ 52.36 crores), including exceptional costs of ₹ 0.43 crore (previous year - ₹ 18.05 crores). The effect of this is available in the Consolidated Accounts attached to this Report.

The consolidated financial statements have been prepared in compliance with applicable Accounting Standards. For reasons beyond management's control, the financial information of Novener and its subsidiaries included in the Consolidated Financial Statements are based on management's estimates.

As required by Clause 32 of the Listing Agreement with the Stock Exchanges, the Audited Financial Statements together with the Auditors' Report thereon are annexed and form part of this Annual Report.

The consolidated accounts presented under this Annual Report include the financial numbers of your Company's subsidiaries, for the year under review. A Statement containing the details of the Subsidiary Companies is attached in the Annual Report.

In accordance with the General Circular issued by the Ministry of Corporate Affairs, Government of India, the accounts of the applicable subsidiary companies and the related detailed information, as required under section 212 (1) of the Companies Act, 1956 are not attached. Hard copy of the Annual Accounts of the applicable subsidiary companies and the related other information shall be made available to the members seeking such information and shall also be kept open for inspection at the Registered Office of the Company and of the subsidiaries concerned during working hours, upto the date of the Annual General Meeting.

Prospects

As mentioned at the outset, the year was a challenging one for operations. Both batteries and flashlights went through some major changes in the recent past. In case of batteries, it was an unprecedented de-growth of an important segment ('D') and a major shift in product mix. For flashlights, on the other hand, it was a case of very significant growth fuelled by new generation products and then a quiet period during the current year.

Batteries have now settled down to a stable level which seem sustainable and supported by historical statistics. In fact the major segments in batteries - viz. 'AA' and 'AAA' - together comprising nearly 80 % of the market in terms of volume, are growing at a rate higher than historical trends. This is being brought down by the continuing de-growth of the 'D' segment. However, this latter segment has now gone down to such low level that it should now stop having much impact on the overall market. The outlook - even in the near-term thus appears to be brighter than what was seen in the current year.

For the long term, battery business is linked to fundamental demand driven by device population. As India gets economically more developed, device penetration into households will increase in line with the rest of the world, boosting battery growth. It needs to be borne in mind that India remains one of the lowest per capita battery consuming nations - and hence with a potential for major improvement.

The flashlights business is on a strong wicket. A big population with need for portable lighting is a potent formula for sustainable growth and profitability. The threat of gray market operators bringing copy-cat models to the market in violation of rights of brand & design continues. The current year saw significant impact from this phenomenon. However, your Company will keep striving to circumvent this problem by bringing new product offers which are creative and innovative.

Prospects are promising in the Lighting Products business - both in the CFL and GLS segments. Challenges remain with regard to handling of warranties and competitive pricing - but these are being met. This business remains a key focus area for the Company and an avenue for growth.

Packet tea will add to the turnover. Focus is currently on to improve profitability of this business.

As explained earlier, the Company's margins are impacted by the depreciating rupee, increase in commodity prices and overall inflationary trend. Much of this impact will have to be borne till the country gets out of its macro-economic problems - especially in light of the strong elasticity of demand of the subject product categories in relation to price. Efforts will continue to be made to recover as much of the adverse impact from the market - to the extent practicable.

Finance

Tight control was kept over the finances of your Company. However, due to operational difficulties faced during the year, the level of debt increased marginally by ₹ 14.04 crores.

This slightly higher level of debt, the overall hardening of interest rates and the depreciation of rupee resulted in finance costs being higher at ₹ 36.09 crores (previous year - ₹ 33.37 crores).

Your Company met its financial commitments in servicing debt and repayments thereof in a timely manner. Capital expenditure program as per requirements of operations was duly met.

In view of lack of profits during the year under review, there was no transfer to General Reserves and a loss of ₹ 46.64 crores will be carried forward to the balance sheet.

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. Long-term wage settlements were signed for factory units at Haridwar and Lucknow.

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, till the date of the Annual General Meeting.

Cost Auditors

As per the Order of the Central Government and in pursuance of Section 233B of the Companies Act, 1956, your Company carries out an audit of the cost accounts of the Company relating to dry cell batteries. The due date for filing of the Cost Audit Report with the Ministry of Corporate Affairs for the financial year ended 31st March, 2011 was September 27, 2011 and the same was filed on the said due date. The Board, has upon the recommendation of the Audit Committee re-appointed M/s.Mani & Co., Cost Accountants, Registration No. 00004, Ashoka, 111 Southern Avenue, Kolkata 700 029, (being eligible for the reappointment), to audit the cost accounts of the Company relating to dry cell batteries, as well as other products as recently included for the purpose of cost audit for the financial year ending 31st March, 2013, subject to the approval of the Central Government.

Public Deposits

Your Company does not have any public deposit scheme and has repaid all Fixed Deposits that have matured and were claimed by depositors under the earlier scheme. ₹ 0.005 crore as claimed and paid, however, remain un-encashed by the depositors as on March 31, 2012.

Exports and Foreign Exchange Earnings and Outgo

During the year under review, your Company exported batteries totaling to a value of ₹ 23.61 crores (2010-11 : ₹ 24.94 crores) and flashlights totaling to a value of ₹ 7.74 crores (2010-11 : ₹ 6.43 crores).

₹ Crores

	31.03.2012	31.03.2011
Foreign Exchange Earnings	14.83	17.28
Foreign Exchange Outgo	161.65	139.19

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, 2012, 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

Mr. D. Khaitan, stepped down as Executive Vice Chairman and Managing Director of the Company effective from the close of working hours of August 10, 2011. Mr. Khaitan, continues as the Vice Chairman of the Board.

Mr. Amritanshu Khaitan has been appointed as Wholetime Director for a period of three years effective August 10, 2011.

In accordance with the Articles of Association, Mr. A. Khaitan, Mr. S. R. Dasgupta, Mr. P. H. Ravikumar and Mr. S. Sarkar will retire by rotation at the forthcoming Annual General Meeting, and being eligible, offer themselves for re-appointment.

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

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

Auditors Report

The Auditors have made an observation in their Report relating to the financial information of Novener and its subsidiaries being included in the Consolidated Financial Statements based on management's estimates. As already explained earlier in the Section titled "Subsidiaries & Consolidated Financial Statements", this had to be resorted to for reasons beyond management's control.

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
June 4, 2012

B. M. Khaitan
Chairman

Management Discussion & Analysis

The Business

Eveready Industries India Limited (EIIL) is a leading consumer goods Company, with its products and brand being in Indian households for the past century - specializing in portable energy and lights. It is the country's market leader in the dry cell batteries and flashlights.

The Company's contemporary product portfolio comprises of the following:

- Dry cell and rechargeable batteries under brands' Eveready', 'Powercell' and 'Uniross'.
- Flashlights under the brands 'Eveready' and 'Powercell'.
- Packet tea under brands 'Tez', 'Jaago', 'Premium Gold' and 'Classic'.
- Lamps - CFL and GLS under the brand 'Eveready' and 'Powercell'.

The operations started in India through import of dry cell batteries and then marketing the same across major cities. This led to setting up of manufacturing facilities and a distribution network across India. Subsequently, this manufacturing presence was integrated forward into the manufacture and marketing of flashlights - a leading device category, consuming batteries.

Over time, the Company has evolved into the largest dry cell battery player in India with a market share of 50 per cent and a very dominant flashlights player with over 76 per cent share of this market.*(Source : Company estimate).*

The Company has one of the widest and deepest distribution networks in India, reflected in its premium brand equity and customer loyalty. To leverage this pan-national distribution pipeline, the Company extended its product category to the marketing of packet tea and lighting products.

The Company entered the lighting products market with CFLs during 2007 and then GLS lamps in 2009. The Company plans to be a significant player in these categories as the brand and marketing network of the Company have a good fit to these products.

The Company's existing share of the packet tea market is limited. However, this product category provides a sustainable turnover thereby adding scale to the Company's operations and profitability.

With a robust product outlook, EIIL expects to strengthen its presence across these products through increasing value and volumes in the future.

India Economic Overview

A very significant share of the Company's business comes from the domestic market - hence it is influenced by the health of the Indian economy.

According to reports, the country's GDP growth was estimated at 6.5 percent during the year under review. This was inferior to the growth recorded in the previous year. The year was also marked by high inflationary trends - especially in food prices, leading to a squeeze on people's spending abilities.

The country is facing the challenges of down turn like the rest of the world and the process of recovery is still quite slow. Moreover, the near certainty of a double-dip recession in some European countries will have long-term adverse impact on the global economy - and consequently India. A fast depreciating currency is already taking its toll on the Indian economy. Similarly an inflationary cost push is eating into the profitability of enterprises. The obvious advantages in India's favor are a strong domestic demand and a relatively lower dependence on exports. Given the usual positives and negatives - in the overall - it is hoped that the economy will prove itself to be resilient.

While the economic scenario is somewhat grim, India continues to be a significant emerging economic power house. Due to the sheer size of the economy, most Indians will continue to experience an increasingly higher income level and affluence. The Government is giving specific attention on the economic development of the rural and poorer sections of the economy. Spurred by these, India stands on the anvil of becoming a 'middle income' economy. This transition is expected to ignite consumerism. The consumer goods sector, in which EIIL is engaged, will be able to take full advantage of this.

Consumer Goods Industry in India

The consumer goods sector had mixed experience in the recent past on account of multiplicity of factors - volatility in agricultural incomes, increased competition, price discounts, newer technologies, etc. Also, with growing affordability and aspirational lifestyle, the bias has shifted to luxury and semi-luxury goods. This has led to concerns on retaining the share of consumer wallet for routine and day to day functional products.

However, with a big population as the consumer base and a sizeable percentage being new consumers, the sectoral outlook continues to be positive. This is further helped by the increase in per capita income levels. It is believed that the resilience and health of the economy will finally have a positive impact on per capita consumption pattern - lifting from the present low levels to something closer to average levels experienced elsewhere in the world. This may translate to a growth trend sustainable over the coming years.

Batteries

Industry size and structure

The Indian market for dry cell batteries is now estimated at 2.5 billion pieces by volume and over ₹ 1250 crores by value. The battery market has only a few players, out of which EIIL has a market share of 50 per cent between Eveready and Powercell brands *(Source:Company estimate),* and the next player lags by more than 20 percentage points.

The battery market saw all the players passing on significant price increases to offset material cost push in the recent past. Cumulative price increases for the various battery types ranged between 20 per cent and 50 per cent.

This 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.

The market started recovering over the last 2 years - albeit at a very slow pace. The trend of decline in demand has been arrested. During the last year and the one under review, the market remained flat. Latest trends indicate that the market is now poised to stabilize at the current level and grow reasonably therefrom.

The segment pattern within the market underwent change during the recent past as consumers shifted from the more expensive 'D' size batteries to 'AA' size. The share of the principal battery categories ended at the year-end as per the table below *(Company estimate)*.

Battery category	% of market
D	17.4
C	0.4
AA	73.4
AAA	8.8
Total	**100.0**

The above is quite similar to the pattern seen globally. To that extent it may be said that the recent phenomenon has resulted in the Indian market in aligning itself to the global trend as far as segment share is concerned.

The split of technology within the dry batteries market remained constant with past trends - with zinc carbon batteries virtually accounting for almost the entire market with 97 per cent share. The alkaline batteries have minimal share of the market at less than 2 per cent. Rechargeable batteries, which have the balance 1 per cent of the market seems to have made its mark on a loyal customer base, but remaining stagnant.

Consumption of batteries is driven by gadgets which require battery power. Thus, growth in batteries is a function of increase in devices which need portable power and also consumer behavior on their propensity to use such devices. Since many of these applications address everyday use, batteries should enjoy non-cyclical demand. However, Indian consumers being somewhat conservative in their consuming habits, there remains a strong price to demand elasticity. The phenomenon of consumption reducing on account of increases in the recent past is thus understandable - more so on account of the significant pricing impacts involved. However, latest trends seem to indicate that the market is on the way back to its usual growth path.

Performance review

Volume in the battery market in India was stagnant during the current year. Sales volume of EIIL also remained flat during the year. As a result, the market share pattern remained by and large consistent with the previous year.

EIIL's product mix is quite similar to that of the market. In the year under review, 'D' size had a share of 20 per cent, and 'AA' at 72 per cent, 'AAA' at 7 per cent and 'C' at 1 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 65 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 batteries and flashlights continued to add positive qualities to its brand value. EIIL will persist with these efforts to further strengthen its brand salience.

Opportunities and threats

India has a low per capita consumption across a number of product groups, batteries included, indicating an inherent potential for growth. Since dry cell batteries represent the cheapest source of portable power, consumption is expected to increase over time. Besides, growing income levels, changing lifestyles and an increased need for convenience have resulted in proliferation of gadgets (remote controls, torches, toys, cameras, FM radio sets and portable music systems) run by batteries.

The 'D' segment batteries are driven primarily by flashlights and 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 remote control devices, toys, clock and growth of newer devices like the new generation 'LED' flashlights 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, toys) is expected to enhance the demand for more powerful rechargeable batteries. The Company made its presence felt in this segment by becoming the first organized entrant. Rechargeable batteries continue to be a potential for future revenues and profitability.

Batteries do not face any serious threat because they are items 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. Initially - about 10 years back - these low cost products did invite first-time use on the basis of the price differential but could not garner repeat consumption on account of poor quality. Also, support was given by the Government through imposition of an anti-dumping duty.

Alkaline batteries, popular in the West, yet do not pose as a serious alternative to carbon zinc batteries due to the price-sensitive nature of the Indian consumer leading to a mere 2 per cent share of the market despite being present for over 15 years. In any case, EIIL has presence in this segment and will be able to participate if the market provides indication of an opportunity.

The overall scenario, thus, appears to be positive. However, there may be a tangible threat to battery consumption. If the current cost push continues or there is no near-term reversal of the same, further price increases will become necessary - which may adversely affect volumes in this category.

Risks and concerns

Presently, the biggest area of concern is the depreciating rupee. Since much of the battery making chemicals are imported or dollar-determined, margins have been impacted very significantly. The product category has limited capability in passing this unprecedented adverse impact without risking hit in consumption pattern. Beside this, raw material prices have also been showing tendency of hardening. Also, the overall inflationary trends have been putting pressure on other operating costs. While all these represent areas of concern, these are not limited to EIIL alone.

Also, 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 Company has a well-documented Risk Management System, which is reviewed by an active Steering Committee appointed by the Board of Directors. The risk registrar does identify a few risks, which are inherent to the business. There is a mitigation system in place which addresses these risks as part of routine management process.

Flashlights

The flashlight market is shaped by EIIL because of its dominant market share position at over 76 per cent *(Source: Company estimate)* in the organized segment.

The segments in the flashlights market were traditionally determined by the material used for manufacturing the flashlight viz., Brass, Plastic, and Aluminum.

Historically, the 'brass' segment was the most popular among consumers - especially in the rural areas. However, in the recent past, prices of brass flashlights had to be increased manifold on account of the cost push of the underlying base metals - zinc and copper. This was thoroughly resisted by the consumers and brass flashlights volumes started de-growing significantly over the last 5 years.

As a mitigation measure and with a view to giving consumers a value-for-money option, the Company introduced the new generation 'LED' flashlights, so named popularly due to usage of LED bulbs being used as the light source. EIIL has been at the forefront of introduction of this new segment and has encouraged consumers to take to it due to the advantage of lower battery consumption in these flashlights.

This development breathed new life to this business with volumes making major strides both in number and growth over the initial 2 years. This in turn led to an enhanced user-ship. Also, the in-use period of these flashlights (mostly plastic) being considerably lower than the traditional metal flashlights, replacements are expected to be more frequent. These factors should also provide boost to battery demand.

After the robust growth of the initial 2 years, the last year and the year under review saw a quiet period in volumes for the organized players. This trend could be attributed to the sudden increase in user-ship and higher penetration over the stated 2 years. The base having suddenly doubled, there is a resultant slack. However, it is expected that once the market settles down to this new base, the normal growth pattern will resume.

LED flashlights now occupy more than 95 per cent of the total volume sold by EIIL. The incandescent bulb flashlights across all segments - brass, aluminum and plastics - account for the balance.

As mentioned earlier, the industry is dominated by EIIL. There are a few other players, none of whom have any significant position.

However, there is a trend to note - that of the grey market operation with copy-cat products. This is operated by unorganized and unscrupulous players, who violate brand and design rights without any compunction - and more often than not, do not pay duties and taxes. These grey market products confuse consumers. It is quite hurtful to organized players such as EIIL. Actions keep getting taken - but these are quite inadequate in a market of the size of our country. It appears that one has to live with this phenomenon.

Performance review

During 2011-12, EIIL's flashlights volume increased by 3.8 per cent, in line with trend of this product segment in the organized market. This business segment continues to be profitable.

Opportunities and threats

But for a flattish performance during the year (on account of reasons already explained), India's flashlights market is expected to grow at a steady pace. A vast dormant population (almost 45 million rural households) of non-users represents a large opportunity for flashlights, which the Company expects to tap into, over the foreseeable future.

Growth in urban areas - where flashlight ownership is less common - is the other opportunity area. Vast parts of urban areas now face frequent power cuts and flashlights provide a lighting solution in those times.

The threat remains that of the market being susceptible to grey operations of unorganized players bringing copy-cat models to the market - usually without payment of taxes and duties. The current year saw significant impact from this phenomenon. The only way to sidestep this problem is to keep bringing new models which are creative and innovative. This is a continuous process and hopefully efforts in this regard will mitigate this undesirable market phenomenon to some extent.

Risks and concerns

Volumes which grew at a significant pace over the initial 2 years after the