

firm focus on its core strength—the tea business. Says Ashish Jain, 30, Analyst, ICRA Ltd: “The decision could be as important to the future of the Khaitan Group as their 1994 decision to acquire Union Carbide (later renamed Eveready Industries).”

At the same board meeting, the Khaitans also decided to consolidate their tea businesses by merging the tea division of Eveready, McLeod Russel, (having 24 gardens in Assam and West Bengal yielding 28 million kgs of tea, one-third of which goes into two brands of packaged tea) with the group’s biggest tea company Bishnauth Tea, which has 15 tea estates. The Khaitans now want to inject fresh equity funds (a set of merchant bankers are to weigh the options available before the company) into the two businesses but Aditya is tight-lipped about the numbers. The options include a private placement, a strategic alliance or a rights issue.

who’ll recharge Eveready?

aditya Khaitan admits there are five to seven interested parties, for the battery spin-off deal. That’s not surprising. Apart from being the largest manufacturer and seller of flashlights, Eveready makes carbon zinc batteries, miniature batteries, rechargeables, and markets the Energizer range of alkaline batteries. But the company’s biggest asset is its retail distribution network with a reach of five lakh outlets. EIL operates 14 branches and 44 depots to service 4,000 distributors and stockists, who, in turn, service five lakh retailers directly and 10 lakh indirectly.

Chief among the contenders is the US giant Gillette’s local subsidiary, Indian Shaving Products

Ltd (ISPL), into which battery-maker Duracell India was merged recently. A power to reckon with in the carbon zinc batteries market, Gillette commands a 51 per cent share of the alkaline battery market. Its strongest rival in that segment is the Energizer brand, which is marketed by Eveready.

Energizer Holdings could be another likely contender, albeit a quiet one. A stake in Eveready would give Energizer a sizeable share of the market (Eveready’s total marketshare of 43 per cent in the dry-cell segment). BPL could also be a possible contender, but won’t be a probable one because its presence extends only to the

although packet tea sales fetch a price that is Rs 20-30 higher per kilogram than it is for bulk tea, a large chunk of this is spent on distribution. Eveready’s brands like Tez, which is a mid-market CTC tea, and Premium Gold are available in 10 states and are doing well in Uttar Pradesh, Rajasthan, Haryana, and Punjab. But with no presence in the South, these are yet to become national brands. In contrast, Hindustan Lever’s brands together have a 45 per cent share of the market; Tata Tea’s brands notch up 30 per cent, while Duncans Agro has 9 per cent. Eveready’s marketshare is a mere 3 per cent. One problem is that

Why the Khaitans are spinning off EIL’s battery business

- Mounting interest burden due to debt incurred during the 1994 takeover
- Rising interest costs eating into profitability
- Increasing pressure on the margins in the battery business
- Marginal presence in the fast-growing alkaline battery segment
- Pressure on the tea business because of limited presence in branded teas

alkaline batteries sub-segment, with its BPL Excel brand.

what’s the new blend for tea?

While batteries will be spun-off as a separate venture, the Khaitans are planning to consolidate their tea businesses. By merging the Rs 300-crore McLeod Russel with the Rs 180-crore Bishnauth Tea, the Khaitan’s would be undoing what they did in 1996, when McLeod was reverse merged with Eveready. In retrospect, adding tea to EIL’s main line of business—batteries—was a bad idea, exposing it to the volatilities of an agri-commodity business.

Currently, packet teas make up about a third of Eveready’s Rs 300-crore tea business, and

while the competition has positioned brands across all price points, Eveready is present only in the mid-market and the premium segment. Says **Rahul Dewan, 29, Analyst, HSKP Securities:** “In the tea business, margins lie in the branded tea segment because that is where the growth is taking place.”

But launching a slew of brands, besides being an expensive proposition (each brand launch can guzzle Rs 6-7 crore), may not be the panacea. With a new partner for its batteries business, the Khaitans will also need to see whether Eveready’s distribution network can continue to be leveraged for their packet tea business. **DB**

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