# Eureka Forbes Limited

October 03, 2022

**Ratings**

| Facilities | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities (Term loan) | 50.00 | CARE A; Stable (Single A; Outlook: Stable) | Assigned |
| Long Term Bank Facilities | 288.75 (Enhanced from 258.75) | CARE A; Stable (Single A; Outlook: Stable) | Revised from CARE BBB-; Positive (Triple B Minus; Outlook: Positive) |
| **Total Facilities** | **338.75 (₹ Three Hundred Thirty-Eight Crore and Seventy-Five Lakhs Only)** | | |
| Issuer Rating* | - | CARE A (Is); Stable [Single A (Issuer Rating); Outlook: Stable] | Revised from CARE BBB- (Is); Positive [Triple B Minus (Issuer Rating); Outlook: Positive] |

Details of facilities in Annexure-1

*the Issuer Rating would be subject to the total debt not exceeding Rs.300 crore (as on March 31, 2023).

**Detailed Rationale & Key Rating Drivers**

The revision in the rating assigned to the bank facilities of Eureka Forbes Limited (EFL) takes into account the significant deleveraging of balance sheet post demerger of loss-making overseas business to earlier promoter. This has bolstered the debt protection metrics and resulted in improved liquidity profile. The robust financial position is expected to be maintained by the company with net debt/EBITDA level likely to be below 2x. EFL has completed the composite scheme of arrangement by virtue of which majority shareholding (72.56%) of EFL has been taken over by Lunolux Limited, an Advent International Corporation entity (Advent- a global private equity investor) and the European operations under Lux International AG (LIAG) has been demerged from the company. The LIAG group of entities have reported underperformance since acquisition by EFL which had been dragging down the performance of EFL at consolidated level. The domestic Health and Hygiene business has been a stable business for EFL with the entity holding market leadership in water purification systems and vacuum cleaners in India.

The change in ownership has resulted in onboarding of new management comprising professionals with established track record which is expected to benefit the company in terms of sharing the global expertise. The rating continues to factor optimal capacity utilization of existing capacity and lean operating cycle.

The rating strengths are, however, tempered by modest profit margins despite long track record of operations, susceptibility to volatility in raw material prices and high fixed cost expenses and presence in highly competitive market with changing market dynamics. CARE Ratings expects that with focus on the domestic business operation especially the service segment, planned innovation and various cost saving measures undertaken by the company, the profitability is likely to improve going forward. Although PBILDT margins of company improved during Q1FY23, sustained improvement in PBILDT margins over 10% in the medium term shall be key rating sensitivity.

**Rating Sensitivities**

**Positive Factors - Factors that could lead to positive rating action/upgrade:**

- Significant growth in scale of operations with improvement in PBILDT margin to about 10% on a sustained basis

**Negative Factors- Factors that could lead to negative rating action/downgrade:**

- Reduction in profitability with PBILDT margin below 5% on continued basis
- Any large debt funded acquisition/investment impacting the liquidity/financial position

[1]Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

**Acquisition by Advent International:** Post the composite scheme of arrangement undertaken in February 2022, Lunolux Limited, an Advent International Corporation entity (Advent- a global private equity investor) has completed acquisition of 72.56% of the stake in EFL from Shapoorji Pallonji and Company Private Limited (SPCPL- holding cum-operating company of SP Group) in July 2022. Post-acquisition, the composition of board of directors as well as the senior management of the EFL has also changed. EFL has appointed Mr. Arvind Uppal as the new chairman of EFL who has experience of more than 3 decades in the consumer industry across many countries and is also on the board of well-known companies. EFL has also appointed Mr. Pratik Pota as the Managing Director (effective from August 16, 2022) and has experience of more than 3 decades in leadership roles with PepsiCo, Airtel, HUL & Jubliant foodworks. The change in the composition of board of directors as well as the senior management of the EFL is expected to bring the global expertise in the business carried out by EFL.

**Market leadership in domestic health and hygiene segment:** EFL is market leader in the water purification systems and vacuum cleaners in India with market share of 43.40% in Indian electric water purifiers segment and 60% in vacuum cleaner segment. The company has string brand recall with Aquaguard, Euroclean and Aquasure brands under its umbrella. EFL is one of the leading direct sales companies having strong distribution network of more than 3,000 strong direct sales force and additional 750 plus channel partners. The company has presence in 14,700 stores across 800 towns through distributors, dealers and retail partners. The company has wide service network of over 1,500 service partners with 7,000 service engineers across 21,000 postal codes of India. Though direct selling is the unique selling point (USP) of the company, EFL is widening its reach by increasing focus on online shopping portals and tie-ups with retailers.

**Robust debt protection metrics post demerger of overseas business:**

During FY14, EFL through Aquamall Water Solutions Limited (AWSL) acquired 100% stake in LIAG from Von der Becke family with the acquisition largely (70%) funded through debt (approximate Rs.350 crore). In absence of significant synergy/benefit derived from acquisition, the additional debt had weakened the debt coverage metrics of EFL at consolidated level, although the domestic health and hygiene business continued to remain stable. With the demerger of LIAG, the overall financial profile has witnessed improvement with the debt/EBITDA at 2.17x in FY22 and expected to remain below such level going forward. The business of EFL is not much capital intensive and with current capacity utilization at close to 77% there is adequate scope to increase the market share without any major capex. In light of same, the company has also does not forsee any significant debt addition which would thus enable it to maintain robust capital structure and coverage metrics. The overall gearing ratio of EFL was 0.06x as on March 31, 2022.

**Stable business profile:** EFL (standalone) has two manufacturing units with installed capacity of 1.15 million units per annum which manufactures electric water purifiers, water filters, coolers, vacuum cleaners and air purifiers. The capacity utilization of manufacturing units has been satisfactory at 77.01% during FY22. The revenue reported in the domestic business segment has been stable over the years with revenue in range of Rs.1800 crore improving to Rs.2046 crore in FY22. For analytical purpose, the financials for FY22 have been considered post combining 10 months operation pre demerger and two months of operation post demerger from SP Group. During Q1FY23, EFL reported revenue of Rs.527 crore with improved PBILDT margin of 8.92% and PAT margin of 3.76%.

**Lean operating cycle:** The operating cycle of EFL has been lean with collections within a time period of 2-3 months and no major inventory stocking requirement. EFL maintains raw material inventory of about 1.5-2 months. Hence overall the working capital cycle has remained at around 2 to 2.5 months. Thus, this has not necessitated large working capital requirement and utilization of funds-based limits remain moderate at 67%.

### Key Rating Weaknesses

**Moderate profitability:** EFL has been largely operating on direct sales basis with a large workforce. The high fixed cost expense has thereby impacted the profitability of the company with PBILDT margin (on standalone basis) at an average of 5.05% in the last 3 years. Sales of goods comprise about 70% of the revenue with balance revenue pertaining to services. The company has undertaken initiatives to improve the profitability with focus on service business, launch of new products and cost rationalization. Successful implementation of same would enable the company to improve the profit margins. Although PBILDT margins of company has improved during Q1FY23 to 8.92% (from 5.68% in FY22), the sustained improvement in PBILDT margins over 10% and improvement in return on capital employed would be important from credit perspective.

**Susceptibility to volatility in raw material prices and high fixed cost expenses:** The raw material cost constitutes about 32% of the total cost of sales in the last 3 years. The prices of primary raw materials (including plastic, copper, steel etc.) in the consumer durables industry have been on rise during the last one years leading to pressure on operating margins. However, EFL has been largely able to pass on the increase in input price to its end-customers due to its strong brand recall with leading market share.

**Presence in highly competitive market with changing market dynamics:** EFL face stiff competition from new entrants in the water purifiers and vacuum cleaners product category challenging the dominant market share in India. The other players have established their brands in the market catering to different segments. Additionally, the consumer durables industry is exposed to newer entrants and cheaper alternatives as a result, EFL's market share in the water purification has been reducing in the past few years. Despite the stiff competition in the Indian Health & Hygiene segment, EFL has the first mover advantage, strong distribution network and strong direct sales force due to which it continues to be market leader in Indian water purification segment and vacuum cleaner segment.

### Liquidity: Adequate

The liquidity profile of EFL (consolidated) is adequate with the company generating sufficient accruals vis-à-vis no term debt obligation for FY23 as the company has prepaid the term debt obligation for the year. Furthermore, the utilization of EFL's (standalone) working capital limits has also been moderate with average utilization being around 67% during the last 12-month period ended on June 30, 2022. EFL (standalone) had free cash balance & liquid investment of about Rs.31.00 crore as on August 31, 2022 (Rs.80 crore as on March 31, 2022).

**Analytical approach:** Consolidated as there exists business, financial and management linkage with the subsidiaries. List of companies consolidated is attached as Annexure 6.

### Applicable Criteria

Rating Outlook and Credit Watch
Policy on default recognition
Issuer Rating
Rating Methodology: Consolidation
Rating Methodology - Manufacturing Companies
Liquidity Analysis of Non-Financial Sector Entities
Financial Ratios – Non-Financial Sector

### About the Company

Eureka Forbes Limited (EFL) is a public listed entity; engaged in the health & hygiene segment with product profile comprising water purifiers, vacuum cleaners, air purifiers and home security systems. EFL got listed on BSE Stock Exchange on March 16, 2022. EFL markets water purifiers under the brand 'Aquaguard', 'Dr. Aquaguard' and 'AquaSure' (non-electric purifiers) catering to the affluent and sub-affluent segment of the society respectively. Apart from water purifiers, EFL also sells vacuum cleaners under the brand 'Euroclean', home security systems under the brand 'Eurovigil' and has launched an air purification system under the brand 'Euroair' and Health Conditioner (air conditioner) under brand name 'Forbes'.

Lunolux Limited, an Advent International Corporation entity (a global private equity investor) acquired 72.56% of the stake in EFL from SPCPL (holding cum-operating company of SP Group) as on July 31, 2022.

| Brief Financials - Consolidated (₹ crore) | March 31, 2021 (A) | March 31, 2022 (A)* | Q1FY23 (U/A) |
|---|---|---|---|
| Total operating income | 2166.08 | 382.04 | 527.21 |
| PBILDT | 35.83 | 18.63 | 47.04 |
| PAT | (39.58) | 2.62 | 19.81 |
| Overall gearing (times) | NM | 0.06 | NA |
| Interest coverage (times) | 1.95 | 4.22 | 7.41 |

A: Audited, U/A: Unaudited, NM: Not meaningful, NA: Not Available
*represent operation of only two month post-merger with Forbes Enviro Solutions Limited (FESL)

| Brief Financials - Standalone (₹ crore) | March 31, 2021 (A) | March 31, 2022 (U/A)$ | Q1FY23 (U/A) |
|---|---|---|---|
| Total operating income | 1815.05 | 2046.02 | 526.18 |
| PBILDT | 110.04 | 116.19 | 43.96 |
| PAT | 52.39 | 14.60 | 17.83 |
| Overall gearing (times) | NM | 0.06 | NA |
| Interest coverage (times) | 4.24 | 4.45 | 7.03 |

A: Audited, U/A: Unaudited, NM: Not meaningful, NA: Not Available
$represent combined unaudited result for 10MFY22 & audited 2MFY22
Note: Financials classified as per CARE's internal standards

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure 4

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate (%) | Maturity Date | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based/Non-fund-based-Long Term | - | - | - | - | 288.75 | CARE A; Stable |
| Fund-based - LT-Term Loan | - | - | - | June 30, 2025 | 50.00 | CARE A; Stable |
| Issuer Rating-Issuer Ratings | - | - | - | - | 0.00 | CARE A (Is); Stable |

**Annexure-2: Rating History of last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 | Date(s) and Rating(s) assigned in 2019-2020 |
| 1 | Fund-based/Non-fund-based-Long Term | LT | 288.75 | CARE A; Stable | - | 1)CARE BBB-; Positive (10-Mar-22)<br>2)CARE BB+ (CWP) (27-Sep-21) | 1)CARE BB+; Negative (10-Nov-20)<br>2)CARE A- (CWN) (12-May-20) | 1)CARE A; Stable (24-Dec-19)<br>2)CARE A+; Negative (09-Oct-19)<br>3)CARE A+; Stable (05-Apr-19) |
| 2 | Non-fund-based - ST-BG/LC | ST | - | - | - | 1)Withdrawn (10-Mar-22) | 1)CARE A4+ (10-Nov-20) | 1)CARE A1 (24-Dec-19)<br>2)CARE A1+ |

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 | Date(s) and Rating(s) assigned in 2019-2020 |
| | | | | | | 2)CARE A4+ (CWP) (27-Sep-21) | 2)CARE A2+ (CWN) (12-May-20) | (09-Oct-19) 3)CARE A1+ (05-Apr-19) |
| 3 | Issuer Rating-Issuer Ratings | Issuer rat | 0.00 | CARE A (Is); Stable | - | 1)CARE BBB- (Is); Positive (10-Mar-22) 2)CARE BB+ (Is) (CWP) (27-Sep-21) | 1)CARE BB+ (Is); Negative (10-Nov-20) 2)CARE A- (Is) (CWN) (12-May-20) | 1)CARE A (Is); Stable (24-Dec-19) 2)CARE A+ (Is); Negative (09-Oct-19) 3)CARE A+ (Is); Stable (05-Apr-19) |
| 4 | Fund-based - LT-Term Loan | LT | 50.00 | CARE A; Stable | - | - | - | - |

**Annexure-3: Detailed explanation of covenants of the rated instrument/facilities:** Not Applicable

**Annexure-4: Complexity level of various instruments rated for this company**

| Sr. No. | Name of Instrument | Complexity Level |
|---|---|---|
| 1 | Fund-based - LT-Term Loan | Simple |
| 2 | Fund-based/Non-fund-based-Long Term | Simple |

**Annexure-5: Bank lender details for this company**

To view the lender wise details of bank facilities please click here

**Annexure-6: List of subsidiaries consolidated (w.e.f. February 01, 2022)**

| Name of companies | % of holding as on March 31, 2022 |
|---|---|
| 1. Infinite Water Solutions Private Limited | 100.00 |
| 2. Forbes Aquatech Limited | 100.00 |
| 3. Euro Forbes Limited | 100.00 |
| - Forbes Lux FZCO | 100.00 |

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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**About CARE Ratings Limited:**

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.



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