# Eureka Forbes Limited

March 10, 2022

**Ratings**

| Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| **Long Term Bank Facilities** | **258.75 (Reduced from 266.00)** | **CARE BBB-; Positive (Triple B Minus; Outlook: Positive)** | **Revised from CARE BB+ (Double B Plus) and removed from Credit watch with Positive Implications; Positive outlook assigned** |
| **Short Term Bank Facilities** | **-** | **-** | **Withdrawn** |
| **Total Facilities** | **258.75 (Rs. Two Hundred Fifty-Eight Crore and Seventy-Five Lakhs Only)** | | |
| **Issuer Rating*** | **-** | **CARE BBB- (Is); Positive [Triple B Minus (Issuer Rating); Outlook: Positive]** | **Revised from CARE BB+ (Is) and removed from Credit watch with Positive Implications; Positive outlook assigned** |

Details of facilities in Annexure-1

*the Issuer Rating would be subject to consolidated debt not exceeding Rs.550 crore and/or standalone debt not exceeding Rs.350 crore (as on March 31, 2022)

**Detailed Rationale & Key Rating Drivers**

The above ratings were placed under 'Credit Watch' with positive implications, following the announcement of acquisition of major shareholding of Eureka Forbes Limited (EFL) by Advent International. Since the exact impact of the above development on the credit quality of EFL could not be ascertained at that point of time, the ratings were placed on credit watch. However, consequent to the detailed assessment of the same by CARE, the ratings have been removed from credit watch.

Under the Composite Scheme of Arrangement as on February 01, 2022; EFL has got merged and subsequently demerged from FCL into a separate entity which has been renamed as Eureka Forbes Limited. In the process, the shareholding of EFL has changed with Shapoorji Pallonji & Company Private Limited (SPCPL) holding 72.56% stake in the company as on February 14, 2022 (as against FCL holding 100% stake in the company as on March 31, 2021). Further, SPCPL has proposed to subsequently sell its stake in EFL to Advent International, post listing of EFL. The transaction is not expected to result in any cash inflows to EFL. Hence, the onward transaction of stake sale is unlikely to impact the credit profile of EFL. While the domestic operations of Health & Hygiene would continue under EFL, the European operations under Lux International AG (LIAG) shall continue under FCL (as direct subsidiary vis-à-vis step down subsidiary erstwhile).

The revision in the ratings of Eureka Forbes Limited (EFL) take into account meaningful progress in the scheme of acquisition of major shareholding of EFL by Advent International, substantial improvement in financial position and liquidity profile of EFL with gradual turnaround in business operations of the overseas subsidiaries operated under LIAG, significant debt reduction with complete prepayment of term debt undertaken in the foreign entities and continued satisfactory performance of the domestic health & hygiene segment under EFL. With the completion of scheme of demerger of EFL from FCL (w.e.f. February 01, 2022), the business, going ahead, would comprise only the domestic health & hygiene segment wherein the company enjoys significant market share. During H1FY22 (FY refers to the period from April 01 to March 31), the domestic business has reported improved financial performance with growth in revenue and PBILDT of 28% and 77% respectively. With the exit of overseas operations, there is no further likelihood of any recurrence of impairment loss as in the past. Further, the performance is expected to remain robust with generation of sufficient cash accruals which combined with debt reduction is likely to strengthen the credit metrics. Taking cognizance of all these, the outlook on the rating has been revised to 'Positive'.

The ratings continue to derive strength from experienced promoter group i.e. Shapoorji Pallonji and Company Private Limited (SPCPL), established brand presence and leadership position in water purifiers and vacuum cleaners market in India with its well-established nationwide distribution network.

The aforementioned rating strengths are however tempered by modest profit margins attributed to high fixed costs associated with direct sales channel, eroded networth base due to large impairment losses of previous years and presence in highly competitive market with changing market dynamics.

Based on the company's request, CARE has withdrawn the rating assigned to the proposed short-term bank facilities of EFL with immediate effect, as the company has not availed the proposed facilities.

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

**Rating Sensitivities**
**Positive Factors - Factors that could lead to positive rating action/upgrade:**
- Scaling up of business operations along with improvement in profitability and financial position
- Improvement in the market share of EFL amidst burgeoning competition

**Negative Factors- Factors that could lead to negative rating action/downgrade:**
- Reduction in profitability with PBILDT margin below 5% on continued basis
- Weakening of capital structure with continued losses/additional debt undertaken

**Detailed description of the key rating drivers**
**Key Rating Strengths**
**Experienced promoter group:** Post demerger of EFL from FCL (effective from February 01, 2022), EFL is now a direct subsidiary of Shapoorji Pallonji and Company Limited (SPCPL, rated CARE BBB; Stable/CARE A3+) which is the flagship company of SP Group. SPCPL is one of the leading construction companies of India and is equally held by Mr. Shapoor P. Mistry and Mr Cyrus P. Mistry through the group's investment companies.
The Shapoorji Pallonji group is an extensive conglomerate with business interests in several sectors such as real estate, coal mining, power, ports, roads, biofuels & agriculture, shipping & logistics, consumer products, textiles etc. Most of Shapoorji Pallonji groups' businesses are held by SPCPL as subsidiaries.

**Well-established distribution network coupled with strong brand recall:** 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. EFL continues to be market leader with market share of 44.30% in Indian water purification segment and 69.50% in vacuum cleaner segment led by strong brands like Aquaguard, Euroclean and Aquasure.

**Exit of loss-making foreign operations:** Under the Composite Scheme of Arrangement, EFL has got merged and subsequently demerged from FCL into a separate entity. While the domestic operation of Health & Hygiene would continue with EFL, the European operations would be part of FCL (as direct subsidiary vis-à-vis step down subsidiary erstwhile). The European operations under Lux International AG (LIAG) have been continuously reporting operating loss during the past few years which has pulled down the overall profitability of EFL at consolidated level. However, the linkage with European operations has ended with exit of overseas entities from EFL.

**Debt reduction leading to improved financial position:** In 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. Nonetheless the consolidated debt of EFL reduced by Rs.150 crore during FY21-H1FY22 with prepayment of entire foreign term debt. Further, there are no open corporate guarantees extended by EFL towards any subsidiaries or group companies. Going forward, the debt profile of EFL is likely to consist of term debt and working capital borrowings as per standalone books towards its domestic operations.

**Stable operations of domestic health & hygiene business and improved performance during H1FY22:** The company by virtue of its leadership business in the domestic business has been reporting satisfactory performance on a standalone level. During FY21, it reported standalone revenue and PAT of Rs.1845.05 crore and Rs.52.39 crore respectively. However, weak performance of the overseas entities has been impacting the consolidated performance as reflected by consolidated PBILDT of Rs.35.83 crore as against standalone PBILDT of Rs.140.04 crore during FY21. The overseas operations have gradually started to turnaround with operational profits reported by LIAG during 9MCY21. Further, with the exit of EFL from its overseas business w.e.f. February 01, 2022, its performance would be driven by its domestic operations. On a standalone level, EFL reported y-o-y growth in revenues of about 28% during H1FY22 followed by enhanced operating profits by 77% and 207 bps expanded respectively during the period.

**Liquidity: Adequate**
The liquidity profile of EFL is adequate with the company generating sufficient accruals vis-à-vis debt servicing obligation. As on January 31, 2022, EFL at standalone level had liquid investments of about Rs.60 crore (Rs.86.19 crore as on March 31, 2021) and cash & bank balance of Rs.11.00 crore (Rs.18.00 crore as on March 31, 2021). The utilization of EFL's (standalone) working capital limits has also been moderate with average utilization being around 68% during the last 12-month period ended on December 31, 2021.

**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 5.2% in the last 3 years. Sales of goods comprise almost 70% of the revenue with balance revenue pertaining to services. The company has been focussing on increasing the service revenues and moderate the high fixed cost direct sales model which if successful is expected to result in increased profit margins. Hence, the same would be an important growth driver and a key rating monitorable.

**Erosion of networth:** During the period FY20-21, EFL at consolidated level has booked impairment of goodwill amounting to Rs.226.25 crore as against total operating profit of Rs.76.75 crore during the same period. Out of Rs.226.25 crore, EFL booked impairment expenses of Rs.216.46 crore & Rs.9.79 crore during FY20 & FY21 leading to erosion of entire networth. Going ahead, rationalization of capital structure would be important from credit perspective.

**Presence in highly competitive market with changing market dynamics:** EFL continues to 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 had been under pressure during the past few years. However, the same has been improving and EFL's management expects the market share in the electric water purification segment to further improve to about 50% in medium. Consequently, it has been focussing on developing new products with variation & differentiation along with technological advancement.
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.

**Analytical approach:** Consolidated as there exists business, financial and management linkage with the subsidiaries. List of companies consolidated is attached as Annexure 6. W.e.f. February 01, 2022, all the entities under Forbes Lux International AG and EFL Mauritius Limited have been deconsolidated.

**Applicable Criteria**
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Policy on Withdrawal of ratings
CARE's Issuer Rating
Rating Methodology: Consolidation
Rating Methodology - Manufacturing Companies
Criteria for Short Term Instruments
Liquidity Analysis of Non-Financial Sector Entities
Financial Ratios – Non-Financial Sector

**About the Company**
Eureka Forbes Limited (EFL) is a part of the Shapoorji Pallonji group and is engaged in the health & hygiene segment with product profile comprising water purifiers, vacuum cleaners, air purifiers and home security systems. 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'.

| Brief Financials - Consolidated (Rs. crore) | 31-03-2020 (A) | 31-03-2021 (A) | H1FY22 (U/A) |
|---|---|---|---|
| Total operating income | 2391.27 | 2166.08 | 1166.50 |
| PBILDT | 40.92 | 35.83 | 81.85 |
| PAT | (250.70) | (39.58) | (48.94) |
| Overall gearing (times) | NM | NM | NA |
| Interest coverage (times) | 0.77 | 1.95 | 4.59 |

A: Audited, U/A: Unaudited, NM: Not meaningful, NA: Not Available
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 (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based/Non-fund-based-Long Term | - | - | - | - | 258.75 | CARE BBB-; Positive |
| Non-fund-based - ST-BG/LC | - | - | - | - | 0.00 | Withdrawn |
| Issuer Rating-Issuer Ratings | - | - | - | - | 0.00 | CARE BBB- (Is); Positive |

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

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 |
| 1 | Fund-based/Non-fund-based-Long Term | LT | 258.75 | CARE BBB-; Positive | 1)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)CARE A4+ (CWP) (27-Sep-21) | 1)CARE A4+ (10-Nov-20)<br>2)CARE A2+ (CWN) (12-May-20) | 1)CARE A1 (24-Dec-19<br>2)CARE A1+ (09-Oct-19)<br>3)CARE A1+ (05-Apr-19) | - |
| 3 | Issuer Rating-Issuer Ratings | Issuer rat | 0.00 | CARE BBB- (Is); Positive | 1)CARE BB+ (Is) (CWP) (27-Sep-21) | 1)CARE BB+ (Is); Negative (10-Nov-20)<br>2)CARE A- (Is) (CWN) (12-May-20) | 1)CARE A (Is); Stable (24-Dec-19)<br>2)CARE A+ (Is); Negative (09-Oct-19)<br>3)CARE A+ (Is); Stable (05-Apr-19) | - |

**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/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**

| Name of companies | % of holding as on March 31, 2021 |
|---|---|
| **Subsidiaries** | |
| 1. Aquaignis Technologies Private Limited | 100.00 |
| 2. Forbes Facility Services Private Limited | 100.00 |
| 3. Euro Forbes Financial Services Limited | 100.00 |
| 4. Forbes Enviro Solutions Limited | 100.00 |
| 5. Forbes Aquatech Limited (Subsidiary w.e.f. August 28, 2020) | 66.67 |
| 6. Infinite Water Solutions Private Limited (w.e.f. March 31, 2021) | 100.00 |
| 7. Euro Forbes Limited$ | 100.00 |
| - Forbes Lux FZCO$ | 100.00 |
| 8. EFL Mauritius Limited | 100.00 |
| 9. Forbes Lux International AG$ | 100.00 |
| - Lux International AG$ (LIAG, Subsidiary of Forbes Lux International AG) | 100.00 |
| • Lux Schweiz AG$ | 100.00 |
| • Lux Italia srl$ (ceased to be subsidiary from January 01, 2021) | 0.00 |
| • Lux (Deutschland) GmbH$ (ceased to be subsidiary from May 08, 2020) | 0.00 |
| • Lux International Services and Logistics GmbH$ | 100.00 |
| • Lux Norge A/S$ (ceased to be subsidiary from January 01, 2021) | 0.00 |
| • Lux Oesterreich GmbH$ | 100.00 |
| • Lux del Paraguay S.A$ | 80.00 |
| • Lux Hungária Kereskedelmi Kft.$ | 100.00 |
| • LIAG Trading & Investment Ltd.$ | 100.00 |
| • Lux Professional Paraguay S. A.$ | 100.00 |
| • Lux Welity Polska Sp zoo$ (w.e.f July 29, 2019) | 100.00 |
| **Jointly Controlled Entities** | |
| 1. AMC Cookware Limited$ | 50.00 |
| 2. Forbes Concept Hospitality Services Private Limited | 50.00 |
| **Associate Company** | |
| 1. Euro P2P Direct (Thailand) Co. Limited | 49.00 |

*$Reporting date is December 31, 2020*

**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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