

## Eureka Forbes Limited

January 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	320.00 (Reduced from 338.75)	CARE A+; Stable	Revised from CARE A; Stable
Issuer rating	0.00	CARE A+; Stable	Revised from CARE A; Stable

Details of facilities in Annexure-1.

### Rationale and key rating drivers

The revision in the rating assigned to the bank facilities and issuer rating of Eureka Forbes Limited (EFL) factors in the significant improvement in profitability due to the cost rationalisation measures taken by the management and also discontinuation of the loss-making business. As a result, the PBIDLT margins which were around 5% during FY22 have improved to 9.36% during H1FY24. CARE Ratings Ltd (CARE Ratings) expects the profitability to strengthen further with increased focus of the company on high margin service business which presently contribute around 30% of overall revenue. The rating also factors the improvement in the leverage, with the consolidated debt reducing from ₹256 crore as on March 31, 2022, to ₹80 crore as on September 30, 2023. With lean operating cycle, the Total Debt to EBITDA is expected to continue to remain below unity in the medium term. The rating continues to derive strength from established brand presence and leadership position in water purifiers and vacuum cleaners' market in India with its well-established nationwide distribution network, optimal utilization of existing installed capacity, experienced board members & management team and adequate liquidity position. The rating strengths are, however, tempered by modest revenue growth, susceptibility to volatility in raw material prices along with moderate profitability margin despite long industry presence & strong market position and presence in highly competitive market with changing market dynamics.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Improvement in PBILDT margin to about 13% and growth in scale of operations on a sustained basis

#### Negative factors

- Increase in total debt/PBILDT above 2x on a sustained basis
- Any large debt funded acquisition/investment impacting the liquidity/financial position

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

#### Outlook: Stable

The stable outlook reflects expectation of continued leadership position in water purifiers and vacuum cleaners market in India, stable scale of business along with sustained profitability and adequate liquidity position.

### Detailed description of the key rating drivers:

#### Key strengths

**Significant improvement in margins aided by cost rationalisation measures:** Post takeover by Advent, the management has taken various measures cost rationalisation measures and has discontinued some loss-making businesses such as security division, coronaguard, cleaning services business, etc. The cost rationalisation has boosted the margins from around 5% during FY22 to 7.00% in FY23 and 9.36% in H1FY24. The margins are expected to remain strengthen further on continued focus on improvement in productivity and also increasing the focus high margin service business.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Market leadership in domestic health and hygiene segment:** EFL is market leader in the water purification systems and vacuum cleaners in India with strong 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 financial position:** EFL has a sound financial position with robust capital structure represented by overall gearing of 0.03x as on September 30, 2023. The consolidated debt level of EFL has reduced from ₹256 crore as on March 31, 2022 to ₹140 crore as on March 31, 2023 and has further reduced to ₹80 as on September 30, 2023. With reduction in debt and improvement in profitability the Total Debt to EBITDA improved from 0.95x in FY23 to 0.78x in H1FY24 and is expected to remain at comfortable level in the medium term. With the current capacity utilisation at around 65-70%, there are no major capex plans in the medium term. In light of same, the company also does not foresee any significant debt addition, which would thus enable it to maintain robust capital structure and coverage metrics.

**Lean operating cycle:** The operating cycle of EFL continues to be lean with collections within a time period of 1-2 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 low at 29% during the last 12-month period.

**Strong sponsor with experienced board members & management team:** EFL is majorly owned by Lunolux Limited, an Advent International Corporation entity. Advent International (AI) has acquired 72.56% of the stake in EFL from Shapoorji Pallonji and Company Private Limited in July 2022. Advent is a global private equity and has \$92 billion of assets under management as on June 30, 2023 and has presence across diverse sectors. EFL is managed by a professional board with Mr. Arvind Uppal as chairman who has experience of more than three decades in the consumer industry. Mr. Pratik Pota as the Managing Director (MD) & Chief executive officer (CEO) has experience of more than three decades in leadership roles with various national and multinational companies.

### **Key weaknesses**

**Modest revenue growth and susceptibility to volatility in raw material prices:** EFL has been present in the industry for about several decade and has a strong market presence with the entity being one of the largest player in the water purifier and vacuum cleaner business. However, the scale of operation continues to remain range bound with modest revenue growth witnessed over the last few years. Revenue grew marginally by 2% in FY23 (over FY22) and remained flat during H1FY24 on a y-o-y basis.

The raw material cost constitutes about 33% of the total cost of sales in the last three 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. While the margins have witnessed improvement, ability of the company to continue to strengthen margins while expanding the scale of operation would be the growth driver.

**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 term debt obligation of ₹25 crore for FY24. Furthermore, the utilization of EFL's (standalone) working capital limits has also been low with average utilization being around 29% during the last 12-month period ended on September 30, 2023. EFL had free cash balance & liquid investment of ₹89 crore and ₹94 crore at standalone and consolidated level respectively as on September 30, 2023.

#### **Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** EFL is exposed to risks such as harmful emissions that have a negative impact on the environment. However, the company is complying with the emission norms, filling timely returns and periodic reports are submitted to Central Pollution Control Board and State Pollution Control Board as per the statutory requirements. Furthermore, EFL is in process of switching to recyclable pulp buffer for packaging material as it promotes zero manufacturing waste, and the packaging is 100% recyclable.

EFL is exposed to social risks such as compliance with health and safety standards along with evolving consumer lifestyle changes. However, the company has a well-defined set of processes to address work-related hazards effectively.

The board comprises adequate mix of executive and non-executive/independent directors (Four out of Seven directors are Non-Executive - Independent Director), thereby reflecting prudent corporate governance practice.

#### **Applicable criteria**

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Issuer Rating](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Manufacturing Companies](#)

#### **About the company and industry**

##### **Industry classification**

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Consumer durables	Consumer durables	Household appliances

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' 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) on July 31, 2022.

Brief Financials - Consolidated (₹ crore)	March 31, 2022 (A)*	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	382.04	2086.68	1096.26
PBILDT	18.63	147.19	102.63
PAT	2.62	26.47	51.30
Overall gearing (times)	0.06	0.03	0.02
Interest coverage (times)	4.22	7.27	16.11

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

\*represent operation of only two month post-merger with Forbes Enviro Solutions Limited (FESL)

**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:** Annexure-4

**Lender details:** Annexure-5

#### 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 - LT-Term loan	-	-	-	March 2025	31.25	CARE A+; Stable
Fund-based/Non-fund-based-Long term	-	-	-	-	288.75	CARE A+; Stable
Issuer rating-Issuer ratings	-	-	-	-	0.00	CARE A+; Stable

#### Annexure-2: Rating history for the 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 2023-2024	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
1	Fund-based/Non-fund-based-Long term	LT	288.75	CARE A+; Stable	-	1)CARE A; Stable (03-Oct-22)	1)CARE BBB-; Positive (10-Mar-22) 2)CARE BB+ (CW with Positive Implications) (27-Sep-21)	1)CARE BB+; Negative (10-Nov-20) 2)CARE A- (CW with Negative Implications) (12-May-20)
2	Non-fund-based - ST-BG/LC	ST	-	-	-	-	1)Withdrawn (10-Mar-22) 2)CARE A4+ (CW with Positive Implications) (27-Sep-21)	1)CARE A4+ (10-Nov-20) 2)CARE A2+ (CW with Negative Implications) (12-May-20)
3	Issuer rating-Issuer ratings	Issuer rat	0.00	CARE A+; Stable	-	1)CARE A; Stable (26-Dec-22) 2)CARE A (Is); Stable (03-Oct-22)	1)CARE BBB-(Is); Positive (10-Mar-22) 2)CARE BB+(Is) (CW with Positive Implications) (27-Sep-21)	1)CARE BB+(Is); Negative (10-Nov-20) 2)CARE A-(Is) (CW with Negative Implications) (12-May-20)
4	Fund-based - LT-Term loan	LT	31.25	CARE A+; Stable	-	1)CARE A; Stable (03-Oct-22)	-	-

\*Long term/Short term.

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:** Not applicable

**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term loan	Simple
2	Fund-based/Non-fund-based-Long term	Simple
3	Issuer rating-Issuer ratings	Simple

**Annexure-5: Lender details**

To view the lender-wise details of bank facilities please [click here](#)

**Annexure-6: List of subsidiaries consolidated**

Name of companies	% holding as on March 31, 2023	% holding as on September 30, 2023
1. Infinite Water Solutions Private Limited	100.00	100.00
2. Forbes Aquatech Limited	88.49	88.49
3. Euro Forbes Limited	100.00	100.00
- Forbes Lux FZE	100.00	100.00

**Note on the complexity levels of the rated instruments:** CARE Ratings 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](mailto:care@careedge.in) for any clarifications.

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