Eureka Forbes Limited

September 27, 2021

Ratings

Facilities / Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	266.00	CARE BB+ (CWP) (Double B Plus) (Under Credit watch with Positive Implications)	Placed on Credit watch with Positive Implications
Short Term Bank Facilities	44.25	CARE A4+ (CWP) (A Four Plus) (Under Credit watch with Positive Implications)	Placed on Credit watch with Positive Implications
Total Bank Facilities	**310.25 (Rs. Three Hundred Ten Crore and Twenty-Five Lakhs Only)**		
Issuer rating	-	CARE BB+ (Is) (CWP) (Double B Plus (Issuer Rating)) (Credit watch with Positive Implications)	Placed on Credit watch with Positive Implications

Details of instruments/facilities in Annexure-1

CARE has placed the ratings of Eureka Forbes Limited (EFL) on "Credit watch with positive implications" on account of proposed acquisition of major shareholding in the company by Advent International. Advent International, one of the largest global Private Equity Investor, is expected to acquire 72.56% of the stake in the company at an Enterprise Value of Rs.4400 crore, subject to closing adjustments. EFL is expected to demerge from Forbes & Company Ltd. into a standalone company and then be listed on BSE Limited. The transaction is subject to receipt of relevant statutory and regulatory approvals. The acquisition is expected to aid in debt reduction at the group level and improvement in liquidity profile of the company. CARE is monitoring developments in this regard and shall review the rating when greater clarity emerges.

Detailed Rationale & Key Rating Drivers

The ratings assigned to Eureka Forbes Limited (EFL) take into account weak capital structure (at a consolidated level) with erosion of networth due to impairment of goodwill towards investments in Lux International AG (LIAG, weakened liquidity profile & debt coverage metrics, an increasingly competitive market with changing market dynamics and exposure to overseas subsidiaries that require financial support from EFL. The ratings also factor in the moderation in the credit profile of the ultimate promoter group, Shapoorji Pallonji and Company Private Limited (SPCPL). However, the ratings continue to derive strength from EFL's experienced promoters, established brand presence, leadership position in water purifiers and vacuum cleaners market in India with its well-established nationwide distribution network and moderate dependence on working capital borrowings.

Rating Sensitivities

Positive: Factors that may lead to positive rating action/upgrade:

- Turnaround of LIAG into a sustainable profitable entity as envisaged
- Improvement in its ROCE to above 15% on sustained basis
- Improvement in its overall gearing below unity on sustained basis
- Maintaining market share of EFL in the highly competitive domestic market without further deterioration in financial risk profile

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

- Inability to improve the capital structure and liquidity within committed timelines
- Inability to implement the restructuring plans for LIAG group within envisaged timelines
- Total consolidated debt exceeding Rs.550 crore and/or total standalone debt exceeding Rs.350 crore (For Issuer Rating)

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

Detailed description of the key rating drivers
Key Rating Weaknesses
Subdued overseas operations with consistent support extended: On a consolidated basis, EFL had witnessed continuous decline in revenue during the period FY19-21 on account of weak operating performance of LIAG group due to unfavourable market conditions in European region. Owing to “door to door sell” model, EFL group was not able to demonstrate improvement as there was continuous high proportion of employee cost (25% in FY18). While the trend started reversing from FY19 aided by cost cutting measures and higher value products sold in the Indian entity, the profit level has been impacted due to goodwill impairment recorded.

During FY21, the consolidated total operating income of the company stood at 2,209.48 crore with PBILDT of Rs.82.60 crore and net loss of Rs.39.57 crore. Further, at standalone level, the total operating income of the company stood at Rs.1,856.37 crore with PBILDT of Rs.151.36 crore and PAT of Rs.52.39 crore.

Synergies from acquisition and restructuring of LIAG Business yet to fructify: Upto FY18, EFL supported its various subsidiaries and group companies through financial guarantee and inter-corporate loans as the prevailing unrest and unfavourable market condition in Europe resulted in poor operating performance for LIAG leading to continuing losses. However, EFL group took initiative for restructuring of the LUX group, appointed a new management team and realigned the European operations to de-centralize decision making within the group. It also sold two step-down subsidiaries to improve group liquidity. Further, Lux (Deutschland) GmBH, the major loss making subsidiary of the group (that was dependent on EFL for financial support for its operations), is undergoing the liquidation process and shall not require any other support from EFL. Nonetheless, significant turnaround of LIAG’s operations necessitating minimal support from EFL remains a key rating monitorable.

Unfavourable capital structure and weak debt coverage indicators at consolidated level: The decline in revenue, coupled with the goodwill impairment has led to an erosion in consolidated net worth of EFL group . This along with relatively high debt level at cosol level has resulted in weak debt coverage metrics.

Operates in an increasingly competitive market, 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 in FY20 (as per company sources) had reduced from the past years. However, EFL's management expects the market share in the electric water purification segment to remain around 55-60% and vacuum cleaner at 89%.
Consequently, it has become imperative for EFL to aggressively market its products, devise strategies to arrest further slippages in market share. However, despite the stiff competition the company has the first mover advantage, new product launches, strong distribution network and agents due to which, it has so far been able to sustain majority market share.

Impact of Covid-19 on operations: The COVID-19 pandemic which started spreading rapidly throughout the world impacted the operations of the Group due to shutdown of all plants and offices following lockdown by the Government of respective countries where group operates as per the local government's directive. The cost structure of EFL group comprised higher fixed costs especially employee costs. Consequently, recovery and cost reduction initiatives are focused towards moving from direct sales model to variable cost model. Many branches have been closed or either merged with other nearby branches or converted to a distributorship model. There has also been a reduction in marketing and sales promotion expenses for the year.

Key Rating Strengths
Experienced promoters, albeit recent moderation in credit profile: EFL is a wholly owned subsidiary of Forbes and Company Limited which is a part of SP Group. The SP group is a multibillion dollar conglomerate with business interests in several sectors such as real estate, coal mining, power, ports, roads, biofuels & agriculture, shipping & logistics, consumer products, textiles etc. However, the main holding cum operating income i.e. SPCPL has witnessed moderation credit profile due to high debt level and reduced financial flexibility.
The sale transaction of EFL is a part of restructuring plan of SPCPL and would facilitate reduction of debt levels and improvement in liquidity profile.

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 4,000 strong direct sales force and additional 750 plus through channel partners. The company has presence in 14,700 stores across 800 towns through distributors, dealers and retail partners. Company has wide service network of over 1,500 service partner 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 tapping online shopping portals, tie up with retailers. EFL’s Direct Sales channel saw the introduction of new products (such as Aquaguard with Active Copper), the workforce was reduced with prime focus on high value product sales. EFL's Retail arm also achieved incremental business from over 8,000 new outlets, recorded in November 2019. EFL has been able to retain its leadership presence with brands like Aquaguard, Euroclean and Aquasure.

Liquidity: Stretched
The liquidity profile has been stretched with tightly matched accruals against the repayment obligations. The company has witnessed slowdown in business operations (at consol level) with reduced profitability and cash accruals. The EFL group has not availed any moratorium or OTR facilities, however company is exploring to enhance its working capital bank lines.

Analytical approach: Consolidated. The credit risk assessment primarily compasses the evaluation of financials of the EFL group on consolidated basis as subsidiaries are into similar line of business with synergies in operations and financial linkages. The list of entities consolidated is attached as Annexure-5.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Consolidation
Rating Methodology: Factoring Linkages Parent Sub JV Group
Rating Methodology – Manufacturing Companies
Financial Ratios – Non financial sector
Liquidity Analysis of Non-Financial Sector Entities
Criteria for Short Term Instruments
CARE's Issuer Rating Criteria

About the Company
Eureka Forbes Limited (EFL) is a wholly owned subsidiary of Forbes and Company Limited (FCL). FCL is a part of Shapoorji Pallonji group (refers to companies ultimately held by Mr. Shapoor P. Mistry and Mr. Cyrus P. Mistry) of which 72.56% is held by Shapoorji Pallonji and Company Private Limited (SPCPL, rated CARE BBB/CARE A3+; under Credit Watch with Developing Implications), the holding-cum-operating company of Shapoorji Pallonji group and 1.29% by a subsidiary of FCL.
EFL is one of the leading direct sales companies having strong distribution network of more than 4,000 strong direct sales force and additional 750 plus through channel partners. The company has presence in 14,700 stores across 800 towns through distributors, dealers and retail partners. Company has wide service network of over 1,500 service partner with 7,000 service engineers across 21,000 postal codes of India.
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".
FCL has submitted an application for the merger and subsequent demerger of EFL, to the Bombay Stock Exchange (BSE) during September 2020 and the approval of BSE for the same is awaited.

Brief Consolidated Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	2,391.27	2,209.48
PBILDT	40.92	82.60
PAT	-250.70	-39.57
Overall gearing (times)	NM	NM
Interest coverage (times)	0.77	1.95

A: Audited; NM: Not Meaningful;

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	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	-	-	-	266.00	CARE BB+ (CWP)
Non-fund-based - ST-BG/LC	-	-	-	44.25	CARE A4+ (CWP)
Issuer Rating-Issuer Ratings	-	-	-	0.00	CARE BB+ (Is) (CWP)

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	266.00	CARE BB+ (CWP)	-	1)CARE BB+; Negative (10-Nov-20) 2)CARE A- (CWN) (12-May-20)	1)CARE A; Stable (24-Dec-19) 2)CARE A+; Negative (09-Oct-19) 3)CARE A+; Stable (05-Apr-19)	-
2.	Non-fund-based - ST-BG/LC	ST	44.25	CARE A4+ (CWP)	-	1)CARE A4+ (10-Nov-20) 2)CARE A2+ (CWN) (12-May-20)	1)CARE A1 (24-Dec-19) 2)CARE A1+ (09-Oct-19) 3)CARE A1+ (05-Apr-19)	-
3.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE BB+ (Is) (CWP)	-	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)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based/Non-fund-based-Long Term	Simple
2.	Non-fund-based - ST-BG/LC	Simple

Annexure-5: List of Subsidiaries consolidated

Name of the Company	% Consolidated
Subsidiaries	
Aquaignis Technologies Private Limtied (w.e.f June 13, 2018)	100
Forbes Facility Services Private Limited	100
Euro Forbes Financial Services Limited	100
Forbes Enviro Solutions Limited	100
EFL Mauritius Limited	100
Euro Forbes Limited $	100
Forbes Lux FZCO $	100
Forbes Lux International AG $	100
Lux International AG $ (Subsidiary of Forbes Lux International AG)	100
Lux Schweiz AG $	100
Lux International Services and Logistics GmbH $	100
Lux Oesterreich GmbH $	100
Lux del Paraguay S.A $ (Shareholding increased from October 31, 2019)	80
Lux Hungária Kereskedelmi Kft. $	100
LIAG Trading & Investment Ltd. $	100
Lux Professional Paraguay S. A. $ (Formerly Lux Aqua Paraguay S.A.)	100
Lux Welity Polska Sp zoo $ (w.e.f July 29, 2019)	100
Forbes Aquatech Limited (subsidiary w.e.f August 28, 2020)	66.67
Infinite Water Solutions Private Limited (subsidiary w.e.f March 31, 2021)	100
Jointly Controlled Entities	
Forbes Concept Hospitality Services Private Limited	50
AMC Cookware Limited $	50
Associate Company	
Euro P2P Direct (Thailand) Co. Limited (Investment fully provided)	49

Annexure 6: Bank Lender Details for this Company

Click here to view Bank Lender Details

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

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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