FEBRUARY 09, 2015

CARE REVISES RATINGS ASSIGNED TO BANK FACILITIES OF EUREKA FORBES LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long term Bank Facilities	70	**CARE AA-** (Double A Minus)	**Revised from CARE AA (Double A)**
Short term Bank Facilities	60	**CARE A1+** (A One Plus)	**Reaffirmed**
Issuer Rating	-	**CARE AA- (Is)** [Double A Minus (Issuer Rating)]	**Revised from CARE AA (Is) [Double A (Issuer Rating)]**
Total Facilities	**130**		

Rating Rationale

The rating revision of Eureka Forbes Ltd is on account of EFL Group's rise in overall gearing given debt funded acquisition of Lux International AG (LIAG), decline in group's profitability margins in FY14 (refers to period from April 1 to March 31) and subdued performance of overseas subsidiaries.

The ratings however, continue to derive strength from EFL's (standalone) steady operational performance and cash accruals in FY14 and H1FY15 along with lower dependence on working capital borrowings and a strong parentage. Further, the ratings factor in EFL's strong brand presence in the water purifier and vacuum cleaner market in India with a well-established nationwide distribution network.

The ability of the company to successfully integrate with LIAG as envisioned by increasing its scale of global operations while simultaneously maintaining its leadership position in the highly competitive domestic market are the key rating sensitivities. Additionally, strengthening of the consolidated capital structure, improvement in profitability margins and financial performance of the overseas subsidiaries are other rating sensitivities.

Background

Eureka Forbes Limited (EFL) is a wholly owned subsidiary of Forbes and Company Limited (FCL), which is part of the Shapoorji Pallonji Group. The company is a pioneer & market leader in water purification systems and vacuum cleaners in India. EFL is largely a marketing and sales oriented company, well supported by a strong distribution network of 15,000 dealers present across 1,800+ towns in the country. The company adopts various marketing strategies like direct sales and consumer/retail sales mode. Direct selling is the unique selling point (USP) of EFL and it has a strong selling force of more than 8,000. The company markets water purifiers under the brand 'Aquaguard', and 'AquaSure' 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 markets air purification system under the brand 'Euroair'. In addition, the company also enters into one to three years of annual maintenance contracts with the customers who are serviced by the business partners appointed by the company who have been allotted defined areas. EFL is highly focused in the domestic market with nominal exports of less than 1% in the last three years. During FY14, the company earned around 49.9% of its revenues from sale of water purifiers, 16.8% from the sale of vacuum

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

cleaners, 19.7% from sale of services and the remaining from the sale of home security systems, air cleaning equipment's etc.

EFL is primarily the trading and marketing company and procures water purifiers and vacuum cleaners from Aquamall Water Solutions Limited (AWSL), its wholly owned subsidiary. Other subsidiaries include Forbes Facility Services which is engaged in the contract cleaning business, E4 Development and Coaching Limited undertaking training and coaching of the sales force of EFL and Aquadiagnostics Water Research & Technology Centre Limited which conducts water analysis and evaluation of water purifiers in accordance with the national and international specifications.

In FY14, EFL concluded the acquisition of Swiss based Lux International AG (LIAG) giving Eureka Forbes a premium product portfolio and access to 35 countries in European, African and Latin American markets while boosting its revenues.

In FY14, EFL (standalone) reported a PAT of Rs 19.36 crore (Rs 34.93 crore in FY13) on a total income of Rs 1,459.91 crore (Rs 1,312.29 crore in FY13). Moreover, in H1FY15 (unaudited), EFL reported a PAT of Rs 14.57 crore (Rs 4.17 crore in H1FY14) on a total income of Rs 777.14 crore (Rs 715.05 crore in H1FY14).

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