

MARCH 11, 2016

CARE REAFFIRMS THE RATINGS ASSIGNED TO THE BANK FACILITIES OF EUREKA FORBES LIMITED

Ratings

Facilities/Instrument	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Bank Facilities	100 (Enhanced from 70)	CARE AA- (Double A Minus)	Reaffirmed
Short-term Bank Facilities	75 (Enhanced from 60)	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	175 (Rupees One Hundred and Seventy Five Crore Only)		

Rating Rationale

The reaffirmation of the ratings assigned to the bank facilities of Eureka Forbes Ltd (EFL) continues to derive strength from EFL's steady growth in the domestic operations and adequate liquidity profile characterised by lower dependence on working capital borrowings in the backdrop of service income. Furthermore, the ratings view positively EFL's strong brand presence in the water purifier and vacuum cleaner market in India with a well-established nationwide distribution network and a strong parentage.

The above strengths are partially offset by moderate overall gearing of EFL on standalone and consolidated basis given debt funded acquisition of Lux International AG (LIAG). Furthermore, the dip in EFL's Profit before interest, lease, depreciation and tax (PBILDT) margin over FY14 (refers to the period April 1 to March 31) and FY15 and subdued performance of a few overseas subsidiaries constitute a credit weakness.

The ability of EFL to maintain overall gearing within 0.70x as on March 31, 2016 on a standalone basis is a key rating sensitivity. Furthermore, the ability of EFL to leverage upon synergies post acquisition of LIAG as envisaged and simultaneously maintaining its leadership position in the highly competitive domestic market without deterioration in financial risk profile are the key rating sensitivities.

Background

EFL (CIN: U27109WB1931PLC007010) is a wholly owned subsidiary of Forbes and Company Limited (FCL). FCL is a part of Shapoorji Pallonji group (SP group, refers to companies ultimately held by Mr Shapoorji P Mistry and Mr Cyrus P Mistry) and is 72.56% held by Shapoorji Pallonji and Company Private Limited (SPCPL, rated CARE AA+), the holding-cum-operating company of SP group.

EFL is a pioneer & market leader in water purification systems and vacuum cleaners in India. EFL is primarily a marketing and sales oriented company, well supported by a strong distribution network of 17,340 dealers present across 1,600+ towns in the country. EFL 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 has increased its focus on retail sales mode through retail outlets/e-commerce channels from April 2015 onwards.

The company markets water purifiers under the brand 'Aquaguard', 'Dr. Aquaguard' and 'AquaSure' catering to the affluent and sub-affluent segment of the society respectively. Apart from water purifiers, EFL also sells vacuum cleaners

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

under the brand 'Euroclean', home security systems under the brand 'Eurovigil' and has recently launched an air purification system under the brand 'Aeroguard'.

EFL also enters into one to three years of annual maintenance contracts with the customers who are in turn serviced by the business partners appointed by the company, who have been allotted defined areas. EFL procures water purifiers and vacuum cleaners from its wholly owned subsidiary i.e. Aquamall Water Solutions Limited (AWSL).

In FY14, EFL acquired the remaining equity stake in LIAG (one of oldest direct selling company in the world) from its promoters (von der Becke family) and through LIAG, Eureka Forbes group got a premium product portfolio and access to 35 countries in European, African and Latin American markets.

Standalone financials: In FY15, EFL reported a PAT of Rs.39.88 crore (Rs.19.36 crore in FY14) on a total income of Rs.1,678.58 crore (Rs.1,459.91 crore in FY14). Moreover, in H1FY16, EFL reported a total operating income of Rs.938.84 crore (Rs.777.14 crore in H1FY15).

Consolidated financials: In FY15, EFL reported a PAT of Rs.40.23 crore (Rs.54.29 crore in FY14) on a total income of Rs.2,265.53 crore (Rs.1,891.57 crore in FY14).

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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CIN - L67190MH1993PLC071691