Eureka Forbes Limited

March 14, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	100.00	**CARE AA-; Stable (Double A Minus; Outlook : Stable)**	Reaffirmed
Short term Bank Facilities	75.00	**CARE A1+ (A One Plus)**	Reaffirmed
Issuer Rating	-	**CARE AA- (Is);Stable (Double A Minus (Issuer Rating); Outlook: Stable)**	Reaffirmed
Total Facilities	**Rs.175.00 crore (Rupees One Hundred and Seventy Five Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The reaffirmation of the Issuer rating and ratings to the bank facilities of Eureka Forbes Limited (EFL) 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 coupled with adequate liquidity profile characterised by lower dependence on working capital borrowings and consistent maintenance of cash balance and liquid investments.

The above rating strengths are partially offset by moderate overall gearing of EFL on consolidated basis given debt funded acquisition of Lux International AG (LIAG) and networth being eroded. Furthermore, the rating is also tempered by declining operating margin during last three years and subdued performance of EFL and few overseas subsidiaries constitutes a credit weakness.

The ability of EFL to ensure overall gearing ratio does not exceed 0.70x on a standalone basis is a key rating sensitivity for the Issuer Rating. 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 other key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and established position in the water purifiers and vacuum cleaners in India

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. By virtue of being part of the SP Group, EFL draws strength from the experience, management team and resourcefulness of the group. EFL pioneered the concept of direct sales and has been able to create a remarkable presence in all the product categories it sells through this channel. EFL is managed by a ten-member Board with Mr. Shapoor P. Mistry being the Chairman.

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 7000 strong direct sales force with operations in more than 550 cities and towns. In addition, the company's consumer channel has ~20,000 dealers present across 1,550 towns in the country. Though, direct selling is the unique selling point (USP) of the company, EFL is

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

widening its reach by tapping online shopping portals, tie up with retailers. EFL has been able to create its presence with brands like Aquaguard, Euroclean and Aquasure.

Adequate liquidity profile albeit with exposure to overseas subsidiaries requiring financial support

EFL (consolidated) generates significant amount of cash on recurring basis in terms of advances received from customers as Annual Maintenance service contracts which contribute about ~20% towards total income (Rs.489.42 crore in FY17). The lien free cash & cash equivalent continued to be adequate at Rs 151 crore as on March 31, 2017 (Rs.109 crore prev. yr)

EFL has been supporting its various subsidiaries and other group companies. EFL had extended corporate guarantee for debt availed by Forbes Luz FZCO (Dubai based entity) for business in ASEAN countries through wholly owned subsidiary Euro Forbes Ltd. The support to group companies without commensurate strengthening of capital base is likely to weaken the credit profile of EFL.

Stable revenues albeit thin profitability margins

EFL's turnover on consolidated basis remained stable with marginal decline from Rs. 2,443.16 crore in FY16 to Rs. 2,412.04 crore in FY17. The PBILDT margins declined from 6.00% in FY16 to 2.48% in FY17 owing to weak operating performance of LIAG group due to unfavorable market conditions in Central European region and demonetization drive in India due to which there was no offtake for the products. Also , owing to "door to door sell" model, EFL group was not able to demonstrate improvement as there was continuous higher proportion of employee cost which was ~24.38% (22.52% in prev year) of sales in FY17 with incremental selling expenses related to sales promotion, freight (delivery)and advertisement expenses which were ~13% of sales. EFL has net losses of 22.42 crore in FY17 in comparison to Rs. 7.40 crore of net losses in FY16.

Key Rating Weaknesses

Moderate capital structure and weak debt coverage indicators

EFL has unencumbered free cash of Rs.151 crore (Rs.108 crore as on Mar. 31, 2016) as on March 31, 2017, thus, adjusting the unencumbered free cash from total debt, the leverage has marginally worsen to 2.53x as on Mar. 31, 2017 from 2.05x as on Mar. 31, 2016. The marginal deterioration was on account of increase in total debt (both long term and short term) coupled with marginal erosion in net worth owing to decline in profits from EFL (standalone), AWSL and incremental losses reported by LIAG group during the latest financial.

The Debt coverage indicator like interest cover and total debt to GCA weakened during FY17 on account of significant decline in cash accruals as a consequence to decline in profit margin coupled with incremental debt.

Synergies from acquisition and restructuring of LIAG Business

EFL's acquisition LIAG in FY14 was expected to bring in synergies to EFL Group given the common business model (Direct Selling) and manufacturing capabilities of the LUX Group. LIAG was stronger in product segments such as vacuum cleaners and air purifiers and technical expertise and R&D capabilities along with EFL's strong presence in the water purifier segment and cost-beneficial product procurement system of LIAG provided potential synergies to EFL.EFL group has taken initiative in FY17 where it undertook restructuring of the LUX group and has appointed a new management team and realigned the European operations to de-centralize decision making within the group.

Successful turnaround in operations of Lux Group along with integration with Lux Group as envisioned by increasing its scale of global operations remains a key rating monitorable.

Operates in an increasingly competitive market, changing market dynamics

EFL continues to face stiffer competition from new entrants in the water purifiers and vacuum cleaners product category challenging the dominant market share in India. The other players like HUL's Pureit, Kent's water purifier 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 February 2018 (as per company sources) has remained at the similar-level as in the past years.

Analytical approach:

The credit risk assessment primarily encompasses the evaluation of financials of the EFL group on consolidated basis.

Applicable Criteria

- Criteria on assigning Outlook to Credit Ratings
- CARE's Policy on Default Recognition
- CARE's Issuer Rating criteria
- Financial ratios – Non-Financial Sector
- Rating Methodology: Factoring Linkages in Ratings
- Criteria for Short Term Ratings

About the Company

Eureka Forbes Limited (EFL) is a wholly owned subsidiary of Forbes and Company Limited [FCL, rated CARE AA-,Stable). FCL is a part of Shapoorji Pallonji group (refers to companies ultimately held by Mr. Shapoor P. Mistry and Mr. Cyrus P. Mistry) which holds 73.85% of which 72.56% held by Shapoorji Pallonji and Company Private Limited (SPCPL, rated CARE AA+, Stable), the holding-cum-operating company of Shapoorji Pallonji group.

EFL is a market leader in water purification systems and vacuum cleaners in India. EFL is primarily a marketing and sales oriented company. The company 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 recently launched an air purification system under the brand 'Aeroguard' and 'Euroair'.

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).

Brief Financials of Eureka Forbes Limited (Consolidated)

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Accounting Standard	IND AS	IND AS
Total operating income	**2,443.16**	**2,412.04**
PBILDT	146.68	59.96
PAT	(7.40)	(22.52)
Overall gearing	2.54	3.07
Interest coverage (times)	2.83	1.41

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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

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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 - LT-Cash Credit	-	-	-	100.00	CARE AA-
Non-fund-based - ST-BG/LC	-	-	-	75.00	CARE A1+
Issuer Rating-Issuer Ratings	-	-	-	0.00	CARE AA- (Is)

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	100.00	CARE AA-; Stable	-	1)CARE AA- ;Stable (21-Apr-17)	1)CARE AA- (09-Feb-16)	1)CARE AA- (09-Feb-15)
2.	Non-fund-based - ST-BG/LC	ST	75.00	CARE A1+	-	1)CARE A1+ (21-Apr-17)	1)CARE A1+ (09-Feb-16)	1)CARE A1+ (09-Feb-15)
3.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AA- (Is); Stable	-	1)CARE AA- (Is) ;Stable (21-Apr-17)	1)CARE AA- (Is) (09-Feb-16)	1)CARE AA- (Is) (09-Feb-15)

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CIN - L67190MH1993PLC071691