Eureka Forbes Limited

April 5, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	261.50 (enhanced from Rs.100 crore)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)
Short-term Bank Facilities	53.25	**CARE A1+ (A One Plus)**	Reaffirmed
Issuer Rating	-	**CARE A+ (Is); Stable [Single A Plus (Issuer Rating); Outlook: Stable]**	Revised from CARE AA- (Is); Stable [Double A Minus (Issuer Rating); Outlook: stable]
Total Facilities	**314.75 (Rs.Three Hundred Fourteen Crore and Seventy Five Lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the Issuer rating and long term ratings assigned to the bank facilities of Eureka Forbes Limited (EFL) factor in the higher than expected moderation in financial risk profile of the company at consolidated level over the period FY17-FY18 owing to continued losses in the subsidiary group Lux International AG (LIAG) resulting in moderate capital structure and weak debt coverage indicators. EFL on standalone basis continued to support LIAG financially during FY19 even as its profitability remained subdued.

The rating also takes into account the revision in rating assigned to instruments of ultimate holding company Shapoorji Pallonji and Company Private Limited during FY19 ('CARE AA; under Credit Watch with Developing Implications' from 'CARE AA+; Stable' and short term instrument reaffirmed at CARE A1+).

The ratings however continue to factor in 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 moderate dependence on working capital borrowings, maintenance of cash balance and liquid investments and recovery of growth in topline during 9MFY19. Performance at the standalone available and from LIAG group is expected to stabilize based on various measures initiated by the management.

The ability of EFL to turnaround LIAG into a profitable entity in near-term as envisaged and simultaneously maintaining its market share in the highly competitive domestic market without further deterioration in financial risk profile are the key rating sensitivities.

Furthermore, the ability of EFL to ensure overall gearing ratio does not exceed 0.75 times on a standalone basis is a key rating sensitivity for the Issuer Rating.

Detailed description of the key rating drivers

Key Rating Strengths

Strong promoter group: 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.

During December 2018 rating assigned to the long term instrument of SPCPL was revised to 'CARE AA; under Credit Watch with Developing Implications' from 'CARE AA+; Stable' and short term instrument reaffirmed at CARE A1+.

Well established distribution network coupled with strong brand recall along with leadership position in domestic water purification and vacuum cleaners in India: EFL is one of the leading direct sales companies having strong distribution network of more than 4,000 strong direct sales force on payroll and additional 750 plus through channel partners. The company has presence in 14,000 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

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

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 exposure to overseas subsidiaries requiring financial support: On a standalone basis, at end of February 2019 cash and bank balance of EFL was at Rs.55 crore. During January 2019, EFL has also received equity infusion of Rs. 25 crore from parent- Forbes and company Ltd., to support the business requirement. Fund based working capital bank limits utilisation for the company average at 62.88% for 11 months ending February 2019 providing for moderate liquidity back-up of the company. Furthermore, EFL also relies on cash generated on recurring basis from advances received from customers as Annual Maintenance service contracts which contribute about ~20% towards total income.
EFL has been supporting its various subsidiaries and other group companies. During FY19, EFL availed debt of Rs.100 crore on standalone basis to pare the debt at subsidiary level.

Key Rating Weaknesses
Decline in FY18 revenues with thin profitability margins albeit marginal recovery witnessed during 9MFY19: On a consolidated basis EFL's turnover also recorded decline during FY17-FY18 and PBILDT margins were low at around 3% owing to weak operating performance of LIAG group due to unfavorable market conditions in Europe region and impact of demonetisation and implementation of Good and Service Tax (GST) in the Indian entity. However, during 9MFY19, total operating income of EFL at consolidated level increased by 3.6% to Rs.1822 crore owing to various cost minimizing initiatives undertaken at LIAG and high value products sold by the Indian entity. Steady growth in the operational performance with improved margins will be a key rating monitorable.

Moderate capital structure and weak debt coverage indicators: On a consolidated basis overall gearing of the company deteriorated to 3.51 times as on March 31, 2018 from 3.48 times as on March 31, 2017 on account of net losses reported for FY18 thereby resulting in marginal reduction in networth to Rs.188 crore in FY18 from Rs.211 crore in FY17. Debt coverage indicators like interest cover and total debt to GCA remained weak during FY18 owing to significant decline in cash accruals as a consequence to losses reported in FY18.

Synergies from acquisition and restructuring of LIAG Business: EFL's acquisition of 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. However, the unfavorable market condition in Europe resulted in poor operating performance for LIAG leading to continuing loses. EFL was required to support its various subsidiaries and group companies through financial guarantee and inter-corporate loans upto FY19. However, during CY18, owing to various cost cutting measures undertaken net losses of LIAG business reduced Y-o-Y to Euro 3339 thousand (Provisional) in CY18 from Euro 8054 thousand in CY17. As per the management, LIAG business is expected to record profitability in FY20 (or CY19).
Successful turnaround in operations of LIAG Group as envisioned continues to remains a key rating monitorable.

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 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 FY19 (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. Details of companies consolidated are given as Annexure-3

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 A+;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), 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', has also launched an air purification system under the brand 'Aeroguard' and 'Euroair' and Health Conditioner (air conditioner) under brand name "Forbes".
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, and allotted defined areas.

Brief Financials-consolidated (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	2412.09	2340.81
PBILDT	59.91	64.03
PAT	42.61	60.93
Overall gearing (times)	3.07	3.22
Interest coverage (times)	1.41	1.05

A: Audited
Note: Financials have been classified as per CARE's internal standards

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.*

Analyst Contact:
Name: Ms Rajashree Murkute
Tel: 022 6754 3458
Board: 022 6754 3456
Email: rajashree.murkute@careratings.com

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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.

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	-	-	-	261.50	CARE A+; Stable
Non-fund-based - ST-BG/LC	-	-	-	53.25	CARE A1+
Issuer Rating-Issuer Ratings	-	-	-	-	CARE A+ (Is); Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	261.50	CARE A+; Stable	-	1)CARE AA-; Stable (14-Mar-18) 2)CARE AA-; Stable (21-Apr-17)	-	1)CARE AA- (11-Mar-16) 2)CARE AA- (09-Feb-16)
2.	Non-fund-based - ST-BG/LC	ST	53.25	CARE A1+	-	1)CARE A1+ (14-Mar-18) 2)CARE A1+ (21-Apr-17)	-	1)CARE A1+ (11-Mar-16) 2)CARE A1+ (09-Feb-16)
3.	Issuer Rating-Issuer Ratings	Issuer rat	-	CARE A+ (Is); Stable	-	1)CARE AA- (Is); Stable (14-Mar-18) 2)CARE AA- (Is); Stable (21-Apr-17)	-	1)CARE AA- (Is) (09-Feb-16)

Annexure-3: The list of companies which are included in the consolidated FY18 financial statements and the Group's holdings therein are as under:

Particulars	% consolidated
subsidiary companies	
Aqua diagnostics Water Research & Technology Center Limited.	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 $	99.42
Forbes Lux International AG $	100
Lux International AG $(Subsidiary of Forbes Lux International AG $)	100
Forbes International AG (former Forbes Lux Group AG) $	100
Lux Schweiz AG $	100
Lux Italia sri $	100
Lux (Deutschland) GmbH $	100
Lux International Services and Logistics GmbH $	100
Lux Norge NS $	100
Lux Oesterreich GmbH $	100
Lux del Paraguay S.A *** $	50
Lux Hunqarla Kereskedelmi Kft. $	100
Lux Professional International GmbH (former Lux Aqua GmbH) $	100
Lux Aqua Hungaria Kft $	100
LIAG Trading & Investment Ltd. $	100
Lux Aqua Czech s.r.o $	100
Lux Aqua Paraguay SA $	90
Lux International Service Kft $	100
Jointly controlled entity	
Forbes Aquatech Limited	50
Forbes Concept Hospitality Services Private Limited	50
Infinite Water Solutions Private Limited	50
ForbesG4SSolutions Private Limited	50
Aqualgnis Technologies Private Limited	50
AMC Cookware Limited $	50
Associate Companies	
EuroP2PDirect (Thailand) Co. Limited	49

$ Reporting Date is 31st December, 2017

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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