Eureka Forbes Limited

April 21, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	100	**CARE AA-, Stable (Double A Minus, Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	75	**CARE A1+ (A One Plus)**	**Reaffirmed**
Issuer Rating	-	**CARE AA- (Is), Stable [Double A Minus (Issuer Rating); Outlook: Stable]**	**Reaffirmed**
Total Facilities	**175 (Rupee 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 assigned to the bank facilities of Eureka Forbes Ltd (EFL) continue to derive strength from EFL's steady growth in the domestic operations and adequate liquidity profile characterised by lower dependence on working capital borrowings and consistent maintenance of cash balance and liquid investments, due to improving service and product income. Further, 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 rating 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 After Tax (PAT) margin over the past two years and subdued performance of few overseas subsidiaries constitute 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 well established position in the industry

EFL is a wholly owned subsidiary of Forbes and Company Limited which is a part of Shapoorji Pallonji Group. The Shapoorji Pallonji 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. Most of Shapoorji Pallonji groups' businesses are held by SPCPL as subsidiaries, JVs and associates. By virtue of being part of the Shapoorji Pallonji 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 4000 strong direct sales force with operations in more than 550 cities and towns. In addition, the company's consumer channel has ~18,000 dealers present across 1,550 towns in the country. Direct selling has been the Unique Selling Point (USP) of the company. EFL has established brands such as 'Aquaguard'; 'Aquasure' and 'Euroclean' in the water purifier segments and has a strong presence in the vacuum cleaner segments, further, through the acquisition of Lux International the company has forayed into the European markets, apart from its presence in the South-east Asia.

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

EFL (standalone) generates significant amount of cash on recurring basis in terms of advances received from customers as Annual Maintenance service contracts which contributed about ~21% towards total income (FY16). The lien free cash &

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

cash equivalent continued to be adequate at the end of H1FY17 was Rs. 11.42 crore . EFL's working capital related bank limit utilization remained low during FY17 indicating stable liquidity position of the company.

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., which continues to have significant amount of outstanding debtors. Further, EFL has also had to invest funds in the holding company of Euro Forbes Ltd. (holding company of FLFZCO). The support to group companies without commensurate strengthening of capital base is likely to weaken the credit profile of the company.

Thin profitability margins owing to its trading nature of its operations
EFL is essentially a trading company and procures water purifiers and vacuum cleaners from its manufacturing arm AWSL. PBILDT margin for EFL on standalone basis continued to be low at 3.21% in FY16 (3.10% in FY15) owing to higher proportion of revenue from trading nature of operations. At a consolidated level, PBILDT margin continued to be moderate at 6.75% in FY16 as compared to 5.66% in FY15. The management has undertaken a review in two operational areas i.e. Selling/Marketing costs and Infrastructure costs, the management expects a reduction of costs of about Rs. 10.00 cr annually for EFL on Standalone basis. In FY16 mainly due to a one-time change in the inventory accounting there was significant decrease in PAT margins reducing from 2.37% in FY15 to 1.33% in FY16 at a standalone level and from 1.78% to 0.50% at a consolidated level.
During H1FY17 (unaudited), EFL's sales stood at Rs. 971.23 crore as compared to Rs. 938.84 crore in H1FY16, however, PBILDT decreased from 3.21% as March 31, 2016 to 1.64% majorly due to a higher proportion of selling and promotional expenses to due to the increased completion in the market.

Key Rating Weaknesses

Debt funded acquisition of LIAG led to moderate capital structure

At the end of FY16, the overall gearing ratio remained at similar level as at the end of FY15 i.e. 0.53x. The larger proportion of debt is attributed to debt funded acquisition as discussed earlier and one of subsidiaries in Dubai i.e. FLFZCO which has availed working capital debt to support its operations.

Nonetheless, with the growth in profit from EFL (standalone) and AWSL, EFL's overall gearing on a consolidated basis, remained same at 1.08x as on March 31, 2016 from 1.09x as on March 31, 2015. The lien free cash & cash equivalent continued to be adequate at Rs.119.26 crore (Rs.129.83 crore prev. yr.) translating into net debt/networth of 1.44x as on March 31, 2016 (1.33x as on March 31, 2015) at a consolidated EFL – Group level.

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. During FY17, EFL has undertaken the restructuring of the Lux Group's management and organizational structure. *Successful turnaround in operations of Lux Group alongwith 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
The company 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 January 2017 (as per company sources) has remained at the similar-level as in the past years.
With the advent of internet based selling platforms of consumer durables the company is challenged to adapt to the change in consumer behavior given its traditional platform of door to door selling.
Under the government's initiative several community drinking projects are being tendered to create a common source of water in smaller towns and villages. EFL has been actively exploring/evaluating foray into this segment.

Analytical approach:

The credit risk assessment primarily encompasses the evaluation of financials of the EFL group. Furthermore, with the acquisition of LIAG, the assessment also covers the evaluation of the performance of key subsidiaries.

Applicable Criteria

I. Criteria on assigning Outlook to Credit Ratings
II. CARE's Policy on Default Recognition
III. CARE's Issuer Rating criteria
IV. Financial ratios – Non-Financial Sector
V. Rating Methodology: Factoring Linkages in Ratings
VI. 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, well supported by a strong distribution network of ~18,000 dealers present across 1,550+ 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's strategy and it has a selling force of more than 4,000 personnel. The company has increased its focus on retail sales mode through electronic retail outlets/e-commerce channels from April 2015 onwards. 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).

Status of non-cooperation with previous CRA: NA
Any other information: NA
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-; Stable
Non-fund-based - ST-BG/LC	-	-	-	75.00	CARE A1+
Issuer Rating-Issuer Ratings	-	-	-	0.00	CARE AA- (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 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- (11-Mar-16) 2) 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+ (11-Mar-16) 2) 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) (09-Feb-16)	1) CARE AA- (Is) (09-Feb-15)

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