Eureka Forbes Limited

May 12, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	266.00	CARE A-(Single A Minus); Credit Watch with Negative Implications	Revised from CARE A; Stable [Single A; Outlook: Stable] and placed under Credit Watch with Negative Implications
Short term Bank Facilities	44.25	CARE A2+ (A Two Plus); Credit Watch with Negative Implications	Revised from CARE A1 [A One] and placed under Credit Watch with Negative Implications
Issuer Rating	-	CARE A-(Is) [Single A Minus(Issuer Rating)]; Credit Watch with Negative Implications	Revised from CARE A (Is); Stable [Single A(Issuer Rating); Outlook: Stable] and placed under Credit Watch with Negative Implications
Total Facilities	310.25 (Rupees Three hundred and ten crore and twenty five lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the issuer rating and ratings assigned to the long term and short term bank facilities of Eureka Forbes Limited (EFL) take into account, the losses reported at consolidated level emanating from the impairment of goodwill by Rs.150 crore towards investments in Lux International AG (LIAG) along with expected moderation in the liquidity profile of EFL on a consolidated level resulting mainly from the suspension of global operations due to COVID-19.

The ratings also factor in the moderate capital structure and relatively weak debt coverage indicators at consolidated level and an increasingly competitive market with changing market dynamics. EFL on standalone basis continued to support Lux International AG (LIAG) financially during FY19 and 9MFY20 even as its profitability remained subdued. The consolidated profitability of the EFL group was affected by the impairment of goodwill for Lux group reported in the profit and loss statement of 9MFY20. Further, the turnaround expected in H2FY2020 for LIAG, has not been achieved and is now estimated to be further elongated, given the disruption in operations due to Covid-19 crisis.

However, the ratings 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. The ratings also take cognizance of the moderate dependence on working capital borrowings, maintenance of low cash balance and liquid investments and marginal recovery in operating performance in FY19 as compared to FY18.

The ratings have been placed under 'Credit Watch' on account of the management commitment towards improving liquidity and hence the capital structure of the EFL group through asset monetization and/or promoter funding measures by the end of Q1FY21.

<u>Rating Sensitivities</u>

Positive Factors

- Turnaround of LIAG into a sustainable profitable entity as envisaged
- Maintaining market share of EFL in the highly competitive domestic market without further deterioration in financial risk profile

Negative Factors

- Inability to improve the capital structure and liquidity within committed timelines
- Inability to implement the restructuring plans for LIAG group within envisaged timelines
- Total consolidated debt exceeding Rs.500 crore and/or total standalone debt exceeding Rs.300 crore (For Issuer Rating)
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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.

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

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 14,700 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 shopping portals, tie up with retailers. EFL has been able to create its leadership presence with brands like Aquaguard, Euroclean and Aquasure.
However, as a result of the world-wide COVID-19 pandemic, all stores and operations of EFL have been shut down. As per management estimates, no revenue was earned during April 2020, leading to liquidity stress in the foreign subsidiaries. Various action plans and cost reduction measures are being explored and undertaken at the group level to deal with the liquidity crisis in European subsidiaries. However, timely implementation and achievement of envisaged results from these measures are crucial from rating perspective.

Key Rating Weaknesses
Moderated liquidity profile and exposure to overseas subsidiaries requiring financial support: EFL has not availed any moratorium as repayments due in March 2020 were already paid and no major repayments are due during April and May 2020. However, the EFL group has scheduled debt repayments of ~Rs.45 crore during the period June 2020 to September 2020 which is significantly high. The management is expecting relief packages from international governments, where overseas subsidiaries are located. While CARE has been informed that the management is in discussions with bankers for enhancement and/or refinancing of existing debt to meet the said obligations, in case these measures fall through, the group shall have to rely on promoter fund infusions for meeting the scheduled debt repayments. Besides, the management has further articulated that the promoter fund infusions are being explored in EFL by end of Q1FY21, the fructification of which is crucial from credit perspective.
EFL has been supporting its various subsidiaries and other group companies. During FY19, EFL availed additional debt of Rs.100 crore at standalone level to pare the debt of its subsidiary.

Thin profitability margins albeit marginal recovery witnessed during FY19: On a consolidated basis, EFL had witnessed a decline in operating performance in FY18 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, led by cost cutting measures undertaken at LIAG (leading to positive EBITDA in CY18 compared to negative EBITDA in CY17) and higher value products sold in the Indian entity, this trend started to reverse in FY19 and EFL group reported growth in revenues of ~3% during FY19 compared to FY18. EFL India has also embarked on a transformation journey partnering with a consulting firm since May 2018 for a period of 3 years for market expansion and improvement in growth and profitability. However, in contrary to CARE's expectations of sustainable turnaround in its overseas subsidiaries operations, Lux Group in Europe continued to incur losses. Consequently, goodwill to the tune of ~Rs.150 crore was written off as impairment, resulting in a loss of Rs.138 crore on a consolidated level for EFL for the period H1FY20.
On account of COVID-19, business of EFL has been suspended globally and as per management estimates, no revenue has been earned during April 2020. However, the management is in the process of implementing certain measures for reducing the loss during this period of nominal sales. Going forward, CARE believes recovery in the operational performance with improved margins will be elongated than expected and hence a key rating concern.

Moderate capital structure and weak debt coverage indicators: On a consolidated basis, overall gearing of the company improved to 2.22 times as on March 31, 2019 from 3.22 times as on March 31, 2018 on account of repayment of debt and improvement in profitability. Despite improvement in interest coverage ratio to 1.80x for FY19 from 1.05x for FY18, the total debt to GCA ratio remained very high at 18.88x as on March 31, 2019.
During March 2019, EFL availed fresh term loan of Rs.100 crore to pre-pay the outstanding loans in subsidiary -Euro Forbes Ltd, which has a negative net worth and no cash flows of its own, leading to higher overall gearing ratio at the end of FY19. On a standalone basis, overall gearing worsened to 1.36x as on March 31, 2019 compared to 0.53x as on March 31, 2018 on account of above factor compounded with deterioration of net worth due to provision for impairment of investment in Euro Forbes Limited and Forbes Lux FZCO.
Nonetheless, management has communicated its commitment to improve the capital structure and liquidity available in EFL group through asset monetization and/or promoter funding measures by end of Q1FY21. The timely fructification of the plans as committed to CARE is a key rating monitorable.

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 losses. 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. LIAG business was expected to record profitability in FY20 (or CY19), the suspension of business during March 2020 has impacted the LIAG business and delayed the turnaround in operations against the estimated timelines.
Further delay in successful turnaround in operations of LIAG Group 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 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 reduced from the past years.

Liquidity:
Liquidity: Stretched - EFL had a standalone cash balance of ~Rs.6 crore and working capital limits have been utilised to the extent of Rs.205 crore as on March 31, 2020. Repayments due for March have already been paid. There are no scheduled repayments for the month of April and May hence moratorium has not been availed, but request has been made for conversion of LC dues of Rs.8 crore to fund based limits and banker approval for the same is awaited. Despite the measures being undertaken for dealing with COVID-19 inflicted suspension of operations, EFL group might face severe stress in its operations thereby impacting its financial risk profile.
Cash balance on a consolidated level was ~Rs.25 crore as on March 31, 2020. Repayments of ~Rs.70 crore are due at the group level in FY21 which can only be met through refinancing/government relief and/or infusion from promoters.

Analytical approach: Consolidated. The credit risk assessment primarily encompasses the evaluation of financials of the EFL Group on consolidated basis (as subsidiaries are into similar line of business with synergies in operations and financial linkages) and the linkages with the parent, Forbes and Company Limited (FCL). Details of companies consolidated are given as Annexure - 4.

Applicable Criteria
Criteria on assigning ‘outlook’ and ‘credit watch’ to Credit Ratings
CARE’s Policy on Default Recognition
CARE’s Issuer Rating Criteria
Financial ratios – Non-Financial Sector
Rating Methodology: Consolidation and Factoring Linkages in Ratings
Criteria for Short Term Instruments

About the Company
Eureka Forbes Limited (EFL) is a wholly owned subsidiary of Forbes and Company Limited [FCL, rated CARE A-/A2+; Credit Watch with Negative Implications]. FCL is a part of Shapoorji Pallonji group (refers to companies ultimately held by Mr. Shapoor P. Mistry and Mr. Cyrus P. Mistry) of which 72.56% is held by Shapoorji Pallonji and Company Private Limited, the holding-cum-operating company of Shapoorji Pallonji group and 1.29% by a subsidiary of FCL.
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 ~20,000 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 and it has a selling force of more than 7,000 personnel. The company has increased its focus on retail sales mode through electronic retail outlets/e-commerce channels from April 2015 onwards.
EFL 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 launched an air purification system under the brand ‘Euroair’ and Health Conditioner (air conditioner) under brand name “Forbes”.

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Brief Consolidated Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	2,340.81	2,405.72
PBILDT	64.03	78.04
PAT	-47.36	6.58
Overall gearing (times)	3.22	2.22
Interest coverage (times)	1.05	1.80

A: Audited; Note: The financials are 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

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	-	-	-	266.00	CARE A- (Under Credit watch with Negative Implications)
Non-fund-based - ST-BG/LC	-	-	-	44.25	CARE A2+ (Under Credit watch with Negative Implications)
Issuer Rating-Issuer Ratings	-	-	-	0.00	CARE A- (Is) (Under Credit watch with Negative Implications)

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	266.00	CARE A- (Under Credit watch with Negative Implications)	-	1)CARE A; Stable (24-Dec-19) 2)CARE A+; Negative (09-Oct-19) 3)CARE A+; Stable (05-Apr-19)	-	1)CARE AA-; Stable (14-Mar-18) 2)CARE AA-; Stable (21-Apr-17)
2.	Non-fund-based - ST-BG/LC	ST	44.25	CARE A2+ (Under Credit watch with Negative Implications)	-	1)CARE A1 (24-Dec-19) 2)CARE A1+ (09-Oct-19) 3)CARE A1+ (05-Apr-19)	-	1)CARE A1+ (14-Mar-18) 2)CARE A1+ (21-Apr-17)
3.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE A- (Is) (Under Credit watch with Negative Implications)	-	1)CARE A (Is); Stable (24-Dec-19) 2)CARE A+ (Is); Negative (09-Oct-19) 3)CARE A+ (Is); Stable (05-Apr-19)	-	1)CARE AA- (Is); Stable (14-Mar-18) 2)CARE AA- (Is); Stable (21-Apr-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Bank Facilities	Detailed explanation
A. Financial covenants	
I. Margin	Margin of 25% on all inventory and book debts
B. Non-financial covenants	
I. Commitments under the guarantee	To be honoured by the company from its own resouces
II. Submission of financial statements	Two copies of audited balance sheet to be submitted not later than 180 days from the close of a financial year
III. Change in ownership/shareholding	The Bank shall be kept informed well in advance, of any change in the ownership / shareholding pattern and/or constitution

Annexure-4: List of Subsidiaries consolidated

Name of the Company	% Consolidated
Subsidiaries	
Aquadiagnostics Water Research & Technology Center Limited (upto June 25, 2018)	-
Aquaignis Technologies Private Limtied (w.e.f June 13, 2018)	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 $	100
Forbes Lux International AG $	100
Lux International AG $ (Subsidiary of Forbes Lux International AG $)	100
Forbes International AG (former Forbes Lux Group AG) $	-
Lux Schweiz AG $	100
Lux Italia srl $	100
Lux (Deutschland) GmbH $	100
Lux International Services and Logistics GmbH $	100
Lux Norge A/S $	100
Lux Oesterreich GmbH $	100
Lux del Paraguay S.A $	50
Lux Hungária Kereskedelmi Kft. $	100
Lux Professional International GmbH (former Lux Aqua GmbH) $	-
Lux Aqua Hungaria Kft $	-
LIAG Trading & Investment Ltd. $	100
Lux Aqua Czech s.r.o $	-
Lux Aqua Paraguay S.A. $	90
Lux International Service Kft $	-
Jointly controlled entities	
Forbes Aquatech Limited	50
Forbes Concept Hospitality Services Private Limited	50
Infinite Water Solutions Private Limited	50
Forbes G4S Solutions Private Limited	50
Aquaignis Technologies Private Limited (Subsidiary w.e.f. June 13, 2018)	-
AMC Cookware Limited $	50
Associate Company	
Euro P2P Direct (Thailand) Co. Limited	49

$Reporting date is December 31, 2018

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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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.

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