Eureka Forbes Limited

October 09, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	266.00 (enhanced from 261.50)	**CARE A+; Negative [Single A Plus; Outlook: Negative]**	Rating reaffirmed and outlook revised to Negative
Short term Bank Facilities	44.25 (reduced from 53.25)	**CARE A1+ [A One Plus]**	Reaffirmed
Issuer Ratings	-	**CARE A+(Is); Negative [Single A Plus(Issuer Rating); Outlook: Negative]**	Rating reaffirmed and outlook revised to Negative
Total Facilities	**310.25 (Rupees Three hundred and ten crore and twenty five lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of Issuer rating and long term ratings assigned to the bank facilities of Eureka Forbes Limited (EFL) continues 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 rating also takes cognizance of EFL's adequate liquidity profile characterized by moderate dependence on working capital borrowings, maintenance of cash balance and liquid investments and marginal recovery in operating performance in FY19 as compared to FY18.

The abovementioned rating strengths are tempered by 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 even as its profitability remained subdued. However, the LIAG group is expected to turn around FY20 onwards based on various measures initiated by the management.

The ratings also take into consideration, the revision in rating assigned to instruments of ultimate holding company Shapoorji Pallonji and Company Private Limited during FY20.

The ability of EFL to turnaround LIAG into a sustainable profitable entity 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 total consolidated debt does not exceed Rs.490 crore and total standalone debt does not exceed Rs.290 crore is a key rating sensitivity for the Issuer Rating.

Outlook: Negative

The revision of outlook from stable to negative is attributable to weak demand outlook for the industry, lower than estimated operating performance and moderation in the credit profile of the ultimate sponsor, SPCPL (rating revised to 'CARE AA-; under Credit Watch with Developing Implications' from 'CARE AA; under Credit Watch with Developing Implications' and short term instrument reaffirmed at CARE A1+). The outlook may be revised to stable if the demand outlook improves and the group is able to successfully strengthen its financial profile.

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 June 2019 rating assigned to the long term instrument of SPCPL was revised to 'CARE AA-; under Credit Watch with Developing Implications' from 'CARE AA; under Credit Watch with Developing Implications' 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 14,700 stores across 800 towns through distributors, dealers and retail partners. Company has

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

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.

Adequate liquidity profile albeit exposure to overseas subsidiaries requiring financial support: On a standalone basis, at end of June 2019, cash and bank balance of EFL was at Rs.25 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 57.7% for 12 months ending August 2019, providing for moderate liquidity back-up to 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 additional debt of Rs.100 crore at standalone level to pare the debt of its subsidiary.

Key Rating Weaknesses
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. Further, EFL has achieved a growth of 8% quarter-on-quarter for Q2FY20, with a growth of 8% for the half year. Going forward, 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 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.

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. 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 reduced from the past years. Given the headwinds in macro-environment, FY20 is expected to see moderation in growth of the industry.

Liquidity
Liquidity: Adequate - Adequate liquidity characterized by standalone cash balance of Rs.28.64 crore and consolidated cash balance of Rs.53.24 crore as on June 30, 2019. Further, bank limits (standalone) are utilized only to the extent of 57.70% (fund based) for the last 12 months ended August 2019, leaving sufficient liquidity in the form of unutilized to the tune of Rs.112.52 crore on an average. On a consolidated level, the Lux group has started a turnaround leading to profits which are expected to further grow, improving liquidity and debt coverage indicators FY20 onwards. The overall gearing ratio has

improved from 3.22x as on March 31, 2018 to 2.22x as on March 31, 2019, with an increase in PBILDT interest coverage from 1.05x for FY18 to 1.80x for FY19. The company does not envisage any major capex requirements expected during the period FY20-22.

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. 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: 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+; Negative]. 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 (SPCPL, rated CARE AA-; Under Credit Watch with developing implication/ CARE A1+), 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 facilities: 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 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/ Facility	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+; Negative
Non-fund-based - ST-BG/LC	-	-	-	44.25	CARE A1+
Issuer Rating-Issuer Ratings	-	-	-	0.00	CARE A+ (Is); Negative

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	266.00	CARE A+; Negative	1)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 A1+	1)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); Negative	1)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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