Eureka Forbes Limited

November 10, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	266.00	CARE BB+; Negative (Double B Plus; Outlook: Negative)	Revised from CARE A- (Single A Minus) and removed from under Credit Watch with Negative Implications; Negative Outlook assigned
Short term Bank Facilities	44.25	CARE A4+ (A Four Plus)	Revised from A2+ (A Two Plus) and removed from under Credit Watch with Negative Implications
Issuer Rating	-	CARE BB+ (Is); Negative [Double B Plus (Issuer Rating); Outlook: Negative]	Revised from CARE A- (Is) [Single A Minus (Issuer Rating)] and removed from Under Credit watch with Negative Implications; Negative outlook assigned
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 its consolidated level emanating from the impairment of goodwill by Rs.216.46 crore towards investments in Lux International AG (LIAG) along with moderation in the liquidity profile as well as capital structure of EFL on a consolidated level resulting mainly from the suspension of global operations due to COVID-19 and continued losses incurred by overseas operations during FY20.

The ratings also factor in the recent moderation in the credit profile of the ultimate promoter group, as evinced by the decline in ratings of the holding-cum-operating company, Shapoorji Pallonji and Company Private Limited (SPCPL) from 'CARE A+/A1+; under Credit Watch with Developing Implications' to 'CARE A-/A2+; under Credit Watch with Negative Implications' in September 2020, EFL'S poor capital structure, weak debt coverage indicators at consolidated level, an increasingly competitive market with changing market dynamics and exposure to overseas subsidiaries that require financial support from EFL. EFL on standalone basis continues to support Lux International AG (LIAG) financially during FY19 and FY20 even as its profitability remained subdued. Further, the turnaround expected in H2FY2020 and H1FY2021 for LIAG, has not been achieved and is now estimated to be further elongated, given the prolonged 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 standalone operating performance in FY20 as compared to FY19.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Turnaround of LIAG into a sustainable profitable entity as envisaged
- Improvement in its ROCE to above 15% on sustained basis
- Improvement in its overall gearing below unity on sustained basis
- Maintaining market share of EFL in the highly competitive domestic market without further deterioration in financial risk profile

Negative Factors- Factors that could lead to negative rating action/downgrade:

- 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.550 crore and/or total standalone debt exceeding Rs.350 crore (For Issuer Rating)

Outlook: Negative

The removal of 'Credit Watch' and assignment of negative outlook reflects the weak demand outlook in the near to medium term attributable to Covid-19 and the continued headwinds in macro-environment due to which CARE expects further moderation in revenue growth and profitability in FY21. The outlook may be revised to stable if the demand prospects improves and the group is able to successfully strengthen its financial profile.

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

Detailed description of the key rating drivers
Key Rating Weaknesses
Moderated liquidity profile and exposure to overseas subsidiaries requiring financial support: EFL has not availed any moratorium or One Time Restructuring (OTR facility) as announced by Reserve Bank of India (RBI). CARE expects the Debt Service Coverage Ratio to remain below unity for FY21 and FY22. However, on a consolidated basis, EFL group had liquidity (including mutual fund investments) of ~Rs.63 crore as on March 31, 2020 and of Rs.125 crore as on September 30, 2020, which might be sufficient to meet debt repayments due in H2FY21. On a standalone basis, at end of September 2020, EFL had liquidity of Rs.120 crore (including mutual fund investments). Fund based and non-fund based working capital utilisation for the company averaged at ~74% for 12 months ending September 2020, providing for moderate liquidity back-up through unutilized limits of Rs.60.62 crore.
Furthermore, EFL also relies on advances received from customers towards Annual Maintenance service contracts which contribute about ~20% of total income. Such advances on standalone basis, stood at Rs.441.17 crore as on March 31, 2020 compared with Rs.411.12 crore as on March 31, 2019.
EFL has been consistently extending need based support to 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.

Overseas operations continue to post losses in FY20, albeit marginal improvement in standalone revenues: On a consolidated basis, EFL had witnessed decline in operational performance in FY18 on account of weak operating performance of LIAG group due to unfavourable market conditions in European region. Owing to “door to door sell” model, EFL group was not able to demonstrate improvement as there was continuous high proportion of employee cost (25% in FY18). Led by cost cutting measures undertaken at LIAG (leading to positive EBITDA in CY18) 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. The group also earned a profit after tax of Rs.6.58 crore during FY19 as compared to a loss of Rs.47.36 crore in FY18. EFL reported cash flow from operations of Rs.111 crore during FY20 as against estimated cash flow of ~Rs.88 crore. However, on account of global lockdown and the goodwill impairment recorded during FY20, the consolidated revenue witnessed a de-growth of 0.6% with a loss after tax of Rs.250.70 crore during the year.
On a standalone basis, EFL had witnessed decline in operational performance in FY18 on account of implementation of GST. However, the revenues recovered during FY19 and grew by ~3% as compared to FY18, and by an additional 3% during FY20. Despite the increase in revenues, the loss after tax increased to Rs.284.55 crore during FY19 and further to Rs.398.41 crore during FY20, on account of an exceptional expense of Rs.341.14 crore in FY19 (towards a provision for impairment of equity investment in subsidiaries Euro Forbes and Forbes Lux FZCO) and on account of an exceptional expense of Rs.216.46 crore in FY20 (towards impairment of goodwill on consolidation due to non-achievement of results envisaged for Lux group).Operating profits at standalone level were Rs.88.62 crore in FY19 and Rs.65.26 crore in FY20.

Poor capital structure and weak debt coverage indicators at consolidated level: The decline in revenues, coupled with the goodwill impairment led to an erosion in consolidated net worth of EFL group from Rs.215.10 crore as on March 31, 2019 to Rs.(51.97) crore as on March 31, 2020. As a result, overall gearing of the company deteriorated to -9.78x as on March 31, 2020 from 2.22x as on March 31, 2019. The interest coverage ratio also declined from 1.80x for FY19 to 0.77x for FY20.
During March 2019, EFL availed fresh term loan of Rs.100 crore from ICICI bank 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 for FY19. On a standalone basis, overall gearing worsened to -1.68x as on March 31, 2020 from 1.36x as on March 31, 2019 compared to 0.53x as on March 31, 2018 on account of deterioration of net worth attributed to provision for impairment of goodwill linked to Lux group. The decline in sales also led to deterioration in the interest coverage to 1.64x for FY20 as compared to 4.65x for FY19.

Synergies from acquisition and restructuring of LIAG Business yet to fructify: Upto FY18, EFL supported its various subsidiaries and group companies through financial guarantee and inter-corporate loans as the prevailing unrest and unfavourable market condition in Europe resulted in poor operating performance for LIAG leading to continuing losses.
However, EFL group took initiative for restructuring of the LUX group, appointed a new management team and realigned the European operations to de-centralize decision making within the group.
During FY19, EFL sold two of its step-down subsidiaries viz LUX Aqua Hungaria Kft and Lux Aqua Paraguay for sales consideration of 2.5 million Euros (Rs.21 crore) of which 1.3 million Euros was received upfront and utilised for the working capital purposes. Balance amount of 1.2 million Euros has been received in FY20. Further, Lux (Deutschland) GmBH, the major loss making subsidiary of the group (that was dependent on EFL for financial support for its operations), is undergoing the liquidation process and shall not require any other support from EFL. The cost reduction measures have resulted in cost savings of Rs.25 crore during H1FY21 against management estimates of annual savings ~ Rs.84 crore for FY21.
Nonetheless, significant turnaround of LIAG’s operations necessitating minimal support from EFL 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 FY20 (as per company sources) had reduced from the past years. However, EFL's management expects the market share in the electric water purification segment to remain around 55-60% and vacuum cleaner at 89%.
Consequently, it has become imperative for EFL to aggressively market its products, devise strategies to arrest further slippages in market share. However, despite the stiff competition the company has the first mover advantage, new product launches, strong distribution network and agents due to which, it has so far been able to sustain majority market share.

Impact of Covid-19 on operations: The COVID-19 pandemic which started spreading rapidly throughout the world impacted the operations of the Group due to shutdown of all plants and offices following lockdown by the Government of respective countries where group operates as per the local government's directive. The cost structure of EFL group comprised higher fixed costs especially employee costs. Consequently, recovery and cost reduction initiatives are focused towards moving from direct sales model to variable cost model. Many branches have been closed or either merged with other nearby branches or converted to a distributorship model. There has also been a reduction in marketing and sales promotion expenses for the year.
While April and May 2020 witnessed nil sales, recovery started from June 2020 – achieving 73% of June 2019 sales to near 100% of September 2019 in September 2020.

Key Rating Strengths
Experienced and resourceful promoters, albeit recent moderation in credit profile: 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. However, the credit profile of the SP group has deteriorated recently, as evinced by the revision in the ratings of Shapoorji Pallonji and Company Private Limited (SPCPL, the holding-cum-operating company of the group) to 'CARE A-/A2+; under Credit Watch with Negative Implications' from 'CARE A+/A1+; under Credit Watch with Developing Implications' in September 2020.

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's Direct Sales channel saw the introduction of new products (such as Aquaguard with Active Copper), the workforce was reduced with prime focus on high value product sales. EFL's Retail arm also achieved incremental business from over 8,000 new outlets, recorded in November 2019. EFL has been able to retain 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 were shut down during March-June 2020. As per management estimates, no revenue was earned during April and May 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.

<u>Liquidity:</u>
Liquidity: Stretched - EFL had a standalone cash balance of ~Rs.6.12 crore and working capital limits (fully fungible between fund-based and non-fund based) had been utilised to the extent of Rs.205 crore as on March 31, 2020. Repayments due till September have already been paid. 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.25.89 crore as on March 31, 2020, with mutual fund investments of Rs.37 crore. Repayments of ~Rs.27 crore are due at the group level in H2FY21 which can be met through available liquidity of Rs.125 crore (standalone mutual fund investments of Rs.110 crore, standalone cash and bank balance of Rs.10 crore and an additional liquidity of Rs.5

crore in subsidiaries) and unutilized working capital limits of Rs.60.62 crore as on September 30, 2020. The EFL group has not availed any moratorium or OTR facilities, however company is exploring to enhance its working capital bank lines.

Analytical approach: Consolidated. The credit risk assessment primarily compasses 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. The list of entities consolidated is attached as Annexure-5.

Applicable Criteria
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Rating Methodology: Consolidation]
[Rating Methodology: Factoring Linkages Parent Sub JV Group]
[Rating Methodology – Manufacturing Companies]
[Financial Ratios – Non financial sector]
[Liquidity Analysis of Non-Financial Sector Entities]
[Criteria for Short Term Instruments]
[CARE's Issuer Rating Criteria]

About the Company
Eureka Forbes Limited (EFL) is a wholly owned subsidiary of Forbes and Company Limited [FCL, rated CARE BB+; Negative/A4+]. 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 A-/A2+; under Credit Watch with Negative Implications), 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".
FCL has submitted an application for the merger and subsequent demerger of EFL, to the Bombay Stock Exchange (BSE) during September 2020 and the approval of BSE for the same is awaited.

Brief Consolidated Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	2,405.72	2,391.27
PBILDT	78.04	40.92
PAT	6.58	-250.70
Overall gearing (times)	2.22	-9.78
Interest coverage (times)	1.80	0.77

A: Audited; Note: 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

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

Complexity level of various instruments rated for this company: Annexure 4

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/Non-fund-based-Long Term	-	-	-	266.00	CARE BB+; Negative
Non-fund-based - ST-BG/LC	-	-	-	44.25	CARE A4+
Issuer Rating-Issuer Ratings	-	-	-	0.00	CARE BB+ (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 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/Non-fund-based-Long Term	LT	266.00	CARE BB+; Negative	1)CARE A- (Under Credit watch with Negative Implications) (12-May-20)	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 A4+	1)CARE A2+ (Under Credit watch with Negative Implications) (12-May-20)	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 BB+ (Is); Negative	1)CARE A- (Is) (Under Credit watch with Negative Implications) (12-May-20)	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: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based/Non-fund-based-Long term	Simple
2.	Non-fund-based - ST-BG/LC	Simple

Annexure-5: List of Subsidiaries consolidated

Name of the Company	% Consolidated
Subsidiaries	
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
Lux Schweiz AG $	100
Lux Italia srl $ (under voluntary liquidation)	100
Lux (Deutschland) GmbH $ (Filed for winding up)	100
Lux International Services and Logistics GmbH $	100
Lux Norge A/S $	100
Lux Oesterreich GmbH $	100
Lux del Paraguay S.A $ (Shareholding increased from October 31, 2019)	80
Lux Hungária Kereskedelmi Kft. $	100
LIAG Trading & Investment Ltd. $	100
Lux Professional Paraguay S. A. $ (Formerly Lux Aqua Paraguay S.A.)	100
Lux Welity Polska Sp zoo $ (w.e.f July 29, 2019)	100
Jointly Controlled Entities	
Forbes Aquatech Limited	50
Forbes Concept Hospitality Services Private Limited	50
Infinite Water Solutions Private Limited	50
AMC Cookware Limited $	50
Associate Company	
Euro P2P Direct (Thailand) Co. Limited (Investment fully provided)	49

$ Reporting Date is 31st December, 2019

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

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6754 3573
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name - Rajashree Murkute
Group Head Contact no.- +91-22-6837 4474
Group Head Email ID- rajashree.murkute@careratings.com

Relationship Contact
Name: Saikat Roy
Contact no. : +91-22-6754 3404
Email ID : saikat.roy@careratings.com

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.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**