BUY

CMP: **INR 488** Target Price: **INR 700** ▲ 43%

ICICI Securities

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30 September 2023

India | Equity Research | Initiating Coverage

Eureka Forbes

White Goods

All ingredients in place to be a structural multi-bagger; initiate with BUY

Eureka scores well on important parameters to be a structural compounder. It has (1) established brands like Eureka Forbes, Aquaguard and Select, (2) multi-channel presence with access to 20,000 GT outlets and 10,000+ pin codes, (3) large product portfolio to cater to consumer needs like storage, hot water, copper/zinc benefits and non-electric water purifier and (4) strong RoIC (Exhibit:1). It is investing to expand margins (10% in Q1FY24) which we believe will likely release resources for growth. Launch of a variant at entry price point of INR 6,499 will lead to consumer trials. Distribution expansion and focus on services also offer growth and margin tailwinds. Worsening air and water pollution levels in India, limited presence of MNC brands and failure of new entrants to gain 5%+ market shares provide it a competitive edge. Induction of Pratik Pota (MD & CEO), Gaurav Khandelwal (CFO) and senior industry personnel has expanded management bandwidth; Initiate with **BUY.**

Established competitive advantages

Eureka has developed multiple competitive advantages. It has (1) brands like Eureka Forbes and Aquaguard; also created sub-brands like Sure and Select; (2) multi-channel presence with access to 20,000 retail outlets and 10,000+ pin codes for services; (3) created a large portfolio of water purifiers catering to various needs of consumers such as hot water, copper and zinc benefits, storage, alkaline water and non-electric purifier.

Multiple low-hanging fruits to drive growth in near term

The company is focussing on (1) expanding margins to 10%+ levels as it will release resources to drive growth. Operating leverage and cost saving initiatives have potential to raise margins to mid-high teens in medium term; (2) offering entry level water purifier at MRP of INR 6,499 which is likely to generate consumer trials; (3) the services revenue is lower than its potential and we see strong scope for improvement and (4) investments in distribution.

Healthy long-term potential indicates high DCF value

Considering lower penetration (<5%), deteriorating water and air pollution levels in India and failure of multiple brands to gain market share more than 5% (Tata Swach, TTK prestige, V Guard etc), we model strong growth for the next decade. Also, as water and air pollution are largely problems seemingly endemic to India, we do not model in any steep MNC competitive pressures.

Financial Summary

Y/E (INR mn)	FY23A	FY24E	FY25E	FY6E
Revenue (INR mn)	20,845	22,664	25,755	29,268
Adjusted Net Profit (INR mn)	566	1,294	1,561	1,917
Dil. Rec. EPS (INR)	2.9	6.7	8.1	9.9
% Chg. YoY	2,076.8	128.7	20.7	22.8
P/E (x)	166.9	73.0	60.5	49.3
CEPS (INR)	5.8	8.7	10.4	12.4
EV/EBITDA (x)	66.3	42.4	36.9	32.0
Dividend Yield (%)	-	-	-	-
RoCE (%)	1.7	3.6	4.0	4.5
RoE (%)	1.2	2.6	3.0	3.6

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Market Data

Market Cap (INR)	94bn
Market Cap (USD)	1,136mn
Bloomberg Code	EUREKAFO IN
Reuters Code	EURK.BO
52-week Range (INR)	599 /355
Free Float (%)	25.0
ADTV-3M (mn) (USD)	0.4

Price Performance (%)	3m	6m	12m
Absolute	(12.4)	14.3	(3.4)
Sensex	2.0	12.7	16.1

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

RoCE lower due to intangibles; RoIC > cost of capital

The RoCE of the company is less than 5% but we note there are intangibles on the FY23 Balance Sheet worth INR 51.9bn. We note the RoIC adjusting for intangibles is higher than 100%. The business operates at negative working capital and also requires limited capex. Hence, we model strong value creation (FCF) over next decade.

Earnings growth to drive stock price performance

We have valued the company as per DCF based methodology. We model the company to generate revenue and PAT CAGR of 12% and 50%, respectively over FY23-26. We also model the company to steadily improve the return ratios over FY23-26. At our DCF based target price of INR 700, the implied P/E of FY26E works out to 71x

Key risks are steep inflation in commodity prices and increase in competitive pressures and failure of new product launches.

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Investment summary

Strong RoIC + Healthy long term growth potential = Winner

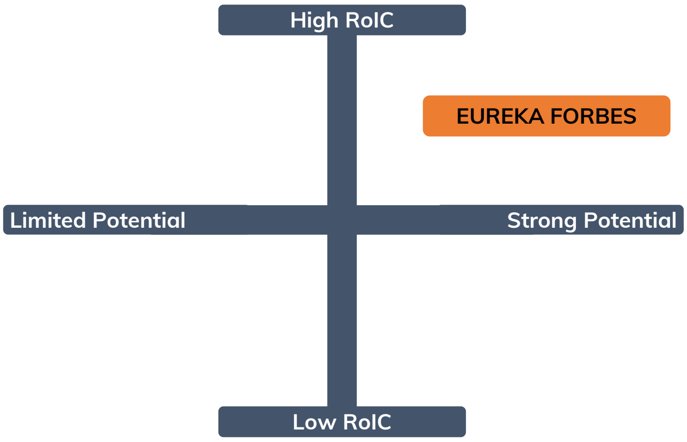
The company is generating RoIC in excess of 100% due to strong profitability and high asset turns (i.e negative working capital and limited capex requirements). It will also benefit from multiple triggers to drive growth in long term. We model strong EVA creation by the company ahead with strong financials.

Exhibit 1: Strong RoIC

Particulars (INR mn)	FY23	FY24E	FY25E	FY26E
ROIC (%)	(19.6)	(63.0)	(249.2)	172.3
Net Worth ...[A]	49,166	50,460	52,021	53,938
Intangibles ...[B]	51,867	51,867	51,867	51,867
Net worth (Business)... [A-B]	(2,701)	(1,407)	154	2,071

Source: Company data, I-Sec research RoIC = PAT/ (Net Worth- Intangibles)

Exhibit 2: Strong RoIC + Healthy long term growth potential = Winner



Source: Company data, I-Sec research

Strong competitive advantages

The company has multiple competitive advantages: (1) Strong brands such as Eureka Forbes and Aquaguard. It has also developed sub-brands such as Sure and Aquaguard Select. These brands, along with their market shares, command higher mindshare too (>65%), in our view. (2) The company also introduced brands with differentiated benefits such as storage, water heater and purifiers for specific benefits of copper and zinc. (3) It will also benefit from its established distribution network.

Exhibit 3: Strong competitive advantages

Advantage	Particulars
Brand	Eureka Forbes, Aquaguard, Sure, Aquaguard Select
Portfolio of products	RO, UV, RO+UV, Non electric water purifiers, Copper, Zinc water purifiers, Alkaline water purifiers, Hot water purifier, Stainless steel based purifiers, Under-counter purifiers (below sink)
Distribution network	Access to 20,000 GT, Strong presence across MT and E commerce, Presence in 10,000+ pin codes for Services
Service network	Strong servicing model (Strongest in the industry, in our view)
Reach	8mn households

Source: Company data, I-Sec research

Near-term growth tailwinds

The company is working on multiple growth strategies such as: (1) improving margins to invest in additional resources for brand building and growth. Its EBITDA margin has reached 10% in Q1FY24. We believe its EBITDA margin has potential to be in mid-high teens with cost rationalisation activities and operating scale. (2) It has introduced a new SKU at INR 6,499 to tap into the bottom-of-pyramid potential and drive penetration. (3) The company also plans to invest steadily in distribution expansion.

We believe higher ad-spend versus peers and launches of differentiated products will also likely result in market share expansion for Eureka. We also note higher investments in trade and consumer activations to drive services income.

Exhibit 4: Growth strategies in near-term

Strategy	Particulars
Launch of multiple SKUs	To tap market across the customers and across price points
Launch of value-for-money variant	Launch new SKU at INR 6,499 to drive growth
Higher brand building efforts	Ad-spend to sales ratio of 8% vs 2-5% for peers
Distribution expansion	Reach to more consumers
Margin expansion	Expanded margin to 10% in Q1FY24 from 5.4% in Q4FY22. Benefits of additional resources
Correction in commodity prices	To boost gross margins

Source: Company data, I-Sec research

Long-term growth potential

We believe, there are multiple long-term growth triggers such as: (1) all the products of Eureka are 'problem-solution' in nature and cater to the problems faced specifically by India such as water pollution and air pollution. With worsening air and water pollution levels, the total addressable market (TAM) for products like water purifier and air purifier is likely to expand at low-mid teens. (2) There is also scope for high DCF value due to service income and sale of filters. (3) The penetration levels of water purifiers as well as air purifiers are significantly lower than other durables.

The affordability (initial purchase price + servicing charges + electricity charges) of these products is also steadily improving, which indicates healthy growth potential.

Exhibit 5: Strong long term growth potential

Growth driver	Particulars
Problem solution nature	Most products cater to India specific problems which are likely to sustain.
Lifecycle value	Higher component of services after the initial purchase of the product
Penetration	Less than 5% penetration of water purifiers and air purifiers

Source: Company data, I-Sec research

Valuation

The company's RoIC (adjusting for intangibles) exceeds 100%, which indicates strong EVA creation. With negative working capital and limited capex, the company is expected to generate strong FCF going ahead.

We model Eureka to generate revenue and PAT CAGR of 12% and 50%, respectively, over FY23-26. We also model the company to steadily improve its return ratios over FY23–26. At our DCF-based target price of INR 700, the implied P/E of FY26E works out to 71x. **Key risks** are steep inflation in commodity prices, increase in competitive pressures, and failure of new product launches.

Exhibit 6: DCF valuation

Particulars	
Cost of Equity (%)	12.5%
Terminal growth rate (%)	3.0%
Discounted interim cash flows (INR mn)	47,165
Discounted terminal value (INR mn)	88,271
Total equity value (INR mn)	1,35,435
Value per share (INR)	**700**

Source: Company data, I-Sec research

Strong competitive advantages

Established brands

The company has established strong brands like Eureka Forbes and Aquaguard. We believe these brand names are largely synonymous with the water purifier and vacuum cleaner categories in India. While Eureka Forbes' market share in water purifiers is ~45%, we believe the mindshare is higher than 65% as per our channel checks.

The company has also developed two sub-brands as Sure and Select. It also sells vacuum cleaners and air purifiers under the brands Forbes and Dr. Aeroguard, respectively.

Exhibit 7: Established brands

Source: Company data, I-Sec research

Strong portfolio of products across price points

The company has developed a product portfolio of across price points targeting consumers across income levels. We note the company has price points from INR 6,499 to INR 25,000. Its product portfolio is bigger than most of the peers, in our view.

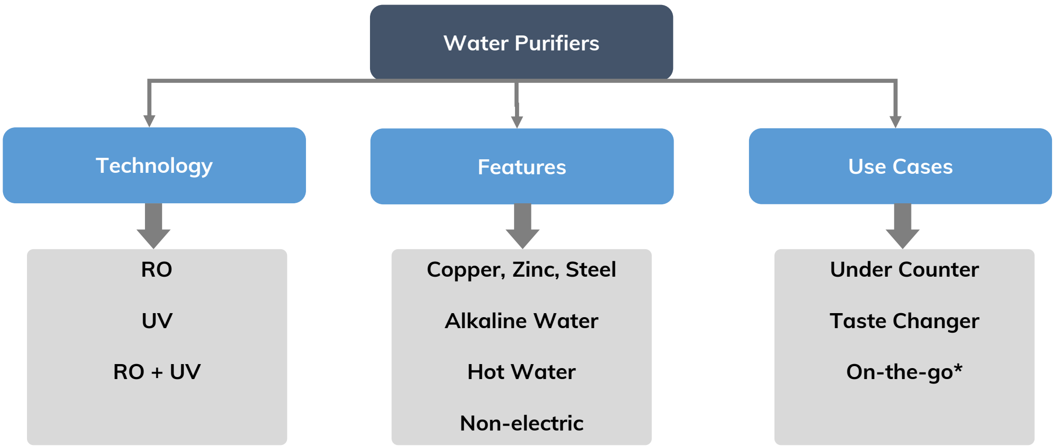
It offers product portfolio in different technologies such as RO, UV and RO+ UV. We note there are more than 50 variants in water purifiers with Eureka Forbes.

With products across price points, we believe there is a product portfolio available to cater to a large set of consumers, which also paves the way to premiumisation.

Sub-segmentation strategy

The company has divided its products as per technology and as per differentiated usage. It also follows a three-brand strategy in water purifiers.

Exhibit 8: Sub-segmentation strategy of Eureka Forbes in water purifiers



Source: Company data, I-Sec research *Limited presence

Exhibit 9: Strong portfolio of products across price points

Products portfolio	Description	MRP (INR)	Technology
Products as per technology			
Aquaguard Sure champ		7,499	RO
Aquaguard Select Edge with Stainless steel	Comes with copper and zinc	28,990	RO
Aquaguard Select Edge with Stainless steel	Comes with copper and zinc	21,490	RO + UV
Aquaguard Select Classic + Hot	Hot, warm & ambient purified water	19,490	UV
Aquaguard Enhance	Comes with copper and zinc	22,000	RO+UV
Aquaguard Aura	Comes with water pH balancing alkaline technology	20,000	RO + UV
AquaSure From Aquaguard Shield	Comes with taste adjuster technology	19,000	RO + UV
Aquaguard Sure Delight NXT	Comes with manual taste adjuster	7,499	RO + UV
Aquaguard Champ Sure UV	Removes bacteria, virus and chemical impurities	6,499	UV
Aquasure Maxima RO+UV	Preferable for high TDS and salty water	11,299	RO + UV
Aquasure Xpert	Preferable for homes with intermittent water supply	20,999	RO + UV
Aquaguard Select Edge with Ayurfresh	Infuses water with Ayurvedic herbs and spices	25,990	RO + UV
Dr. Aquaguard Magna HD	Removes all contaminants	26,490	RO + UV
Aquaguard Royale	Comes with copper and zinc	30,500	RO+UV
By features			
Aquaguard Crystal NXT UV+	Comes with copper and zinc while retaining essential minerals	14,000	UV
Aquaguard Reviva 50 RO	Infuses right amount copper ions	14,790	RO
Aquaguard Astor RO	Ensures contaminant-free water	16,990	RO
Aquaguard Enhance NXT UV+Hot	Hot, warm & ambient purified water	18,000	UV
Dr. Aquaguard Magna UV	5-stage purification process	18,490	UV
Superio Aquaguard	Comes with protection of stainless steel	21,000	UV
Aquaguard UTC UV	Best fit under kitchen sink	22,000	UV
Aquaguard Infinia	Triple purification process	24,500	RO+UV
Aquaguard Select Nrich	8-stage purification	24,990	RO+UV
Aquaguard Geneus DX	Triple purification process	27,500	RO+UV
Aquaguard Select Edge with Alkaline technology	Enhances pH level	25,990	RO+UV
Aquaguard Blaze	Delivers hot and ambient purification	32,500	RO
By brand			
Aquaguard Select Classic+Booster	Comes with Copper and Zinc with other minerals	14,990	UV
Aquaguard Select Edge with Stainless Steel	Comes with Copper and Zinc with protection of stainless steel	28,990	RO+UV
Aquaguard Select Nrich UV+RO on demand	Convertible water purifier; converts from UV to RO+UV+MTDS	17,499	UV
Select Dr. Aquaguard Booster	For smaller spaces efficiently	15,490	UV
Select Dr. Aquaguard Compact	For all time use	14,990	UV

Source: Company data, I-Sec research

Multiple benefits apart from water purification

Apart from water purification, the company also offers multiple benefits in its water purifiers. It has introduced variants with large storage capacity of upto ten litres. It also offers water purifiers with the benefits of copper and zinc, as it is considered good for health by many consumers. The company has also introduced water heaters in water purifiers as some consumers prefer to drink warm/ hot water.

In our view, the company can also roll out water purifiers with cooling facilities. It has also introduced non-electric water purifiers as well as on-the-go water purifier bottles.

Exhibit 10: Multiple benefits apart from water purification

Benefits	Particulars
Usage of different metals	Steel, Copper, Zinc
Storage capacity	Multiple 3-10 capacities
Technologies	RO, UV, RO+ UV
Water temperature	Normal, ambient, Hot
Non electric	Non electric water purifier
On-the-go	Water purifier bottle
Use case	Under-the-Sink, Taste changer products
Water type	Normal, Alkaline water

Source: Company data, I-Sec research

High lifecycle value of water purifiers

The water purifiers have a filter that needs replacing every year. Water purifiers also require servicing at regular intervals to ensure good quality of the water. This enables high DCF value from the product. Once a customer purchases a water purifier, s/he will continue to get it serviced and will also change its filter at regular intervals, which generates a steady revenue stream for water purifier companies like Eureka.

Assuming the consumer purchases the water purifier in year-1 at price of INR 10,000, eventually he will exercise the annual maintenance and will also replace filter. We believe the discounted sales value of water purifier, filter and AMC works out to ~INR 29,455, assuming 10% discount rate and 5% inflation against an initial purchase price of INR 10,000.

Exhibit 11: Lifecycle value of the water purifiers

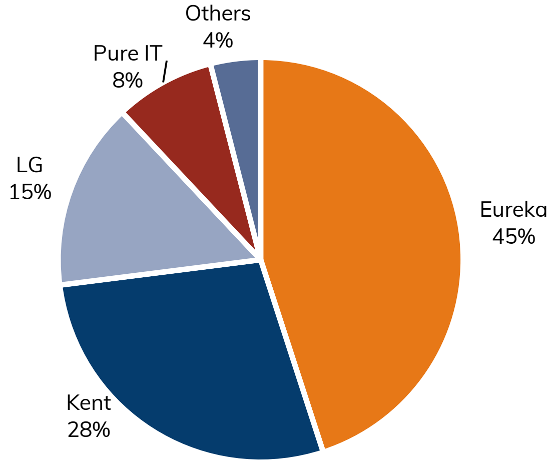
Year	Value	Particulars
Year 1	10,000	No charges for servicing in Year 1
Year 2	3,500	Filter + AMC
Year 3	3,675	Filter + AMC & 5% inflation
Year 4	3,859	Filter + AMC & 5% inflation
Year 5	4,052	Filter + AMC & 5% inflation
Year 6	4,254	Filter + AMC & 5% inflation
Year 7	4,467	Filter + AMC & 5% inflation
Year 8	4,690	Filter + AMC & 5% inflation
PV at beginning of Year 1	**29,455**	**@10% discounting rate**

Source: Company data, I-Sec research Assumption: The water purifier will be replaced at end of Year 8.

Market leading position in key products

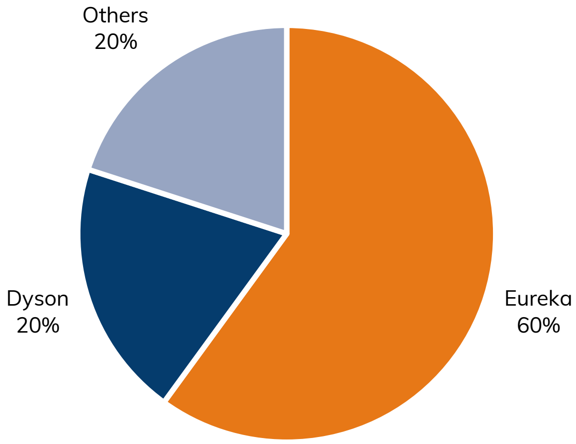
The company commands a strong 45% market share in water purifiers. Kent is ranked second at 28%, followed by LG and others.

Exhibit 12: Strong market shares in water purifiers...



Source: Company data, Industry, I-Sec research

Exhibit 13: ... as well as Vacuum cleaners



Source: Company data, Industry, I-Sec research

Limited success for many players indicates Eureka Forbes' strong brand equity

Multiple players have entered the water purifier segment, but we believe there is limited success for most players considering: (1) Eureka Forbes' strong brand equity; (2) the company's established distribution network and direct sales channel. Considering Eureka has established a large product portfolio (50+ SKUs), we believe there is limited scope for differentiation for its peers.

Exhibit 14: Brands which have failed to gain more than 5% market shares

Brand	Status
Tata Swach	Negligible presence
TTK Prestige	Less than 3% market shares
V Guard	Present largely in E-com channel
Havells	Less than 5% market share, in our view

Source: Company data, I-Sec research

Focus on multi-channel presence

Eureka Forbes focusses on multiple channels to distribute its products. While it has a strong direct channel, it also boasts of a access to 20,000 general trade stores. It also has strong presence in Modern Trade (MT), CSD and e-commerce channels.

We believe a multi-channel presence serves Eureka well to target consumers across income levels and different shopping preferences.

Exhibit 15: Focus on multi-channel presence

Channel	Details
Direct Sales	Large direct sales in water purifier and air purifier
General trade	Access to 20,000 outlets
Modern trade	Present across most MT channel
Ecommerce	Present across most E-com channel
B2B	Present in commercial water purifiers
Canteen Stores	Present in CSD
Pin codes present in	>10,000 for Services
Customer response centres	More than 150 in 120 cities

Source: Company data, I-Sec research

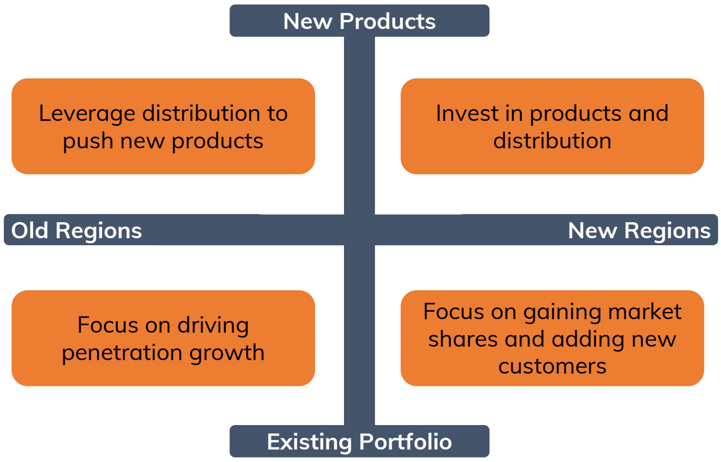
Growth strategies

Multi-pronged growth strategy

Eureka is working on a multi-pronged strategy to: (1) expand distribution; and (2) introduce new products.

We model the company to grow its revenues with these enablers.

Exhibit 16: Multi-pronged growth strategy



Source: Company data, I-Sec research

Launch of SKU at INR 6,499 to drive penetration

The company has recently introduced a new variant at INR 6,499 for water purifier. It believes that there is strong potential to expand the penetration at the bottom-of-the-pyramid. The new product at an affordable price point is likely to result in adding new customers looking for value-for-money solutions.

Exhibit 17: Launch of new variant at affordable price point of INR 6,499

Source: Company data, I-Sec research

Focus on driving the services income

While the company has sold more than 8mn water purifiers, it generates limited service income, considering many consumers are using filters from the unorganised sector. Eureka has initiated steps to ensure it gets its due share of service revenues too. We model the services revenue to increase significantly in the near-term.

We believe there is a steep increase in contraband/look-alike brands in the market, considering there is higher brand awareness than availability. As the company bridges the gaps in its servicing to trade and consumers, we model services revenue to expand in the near-term.

We also note the Services revenue generates higher EBITDA margins than revenues of Products. Increase in Services revenues is margin and RoCE accretive.

Exhibit 18: Strong potential to grow services revenues

Particulars	Amt (INR)	Comments
Water purifier connections	8	Unique customers
Service revenue inc.l filter per annum (INR)	3,500	Service & filters revenues
Potential revenues (INR mn)	28,000	Potential services revenues
@80% penetration	22,400	Assumed 80% customers remain loyal to Eureka filters and servicing
Potential adjusting for 18% GST	18,983	Removal of GST to compare company sales
Current Services revenue (INR mn)	6,284	FY23 revenues
Scope to expand Services revenue (%)	202%	Scope to triple Services revenues

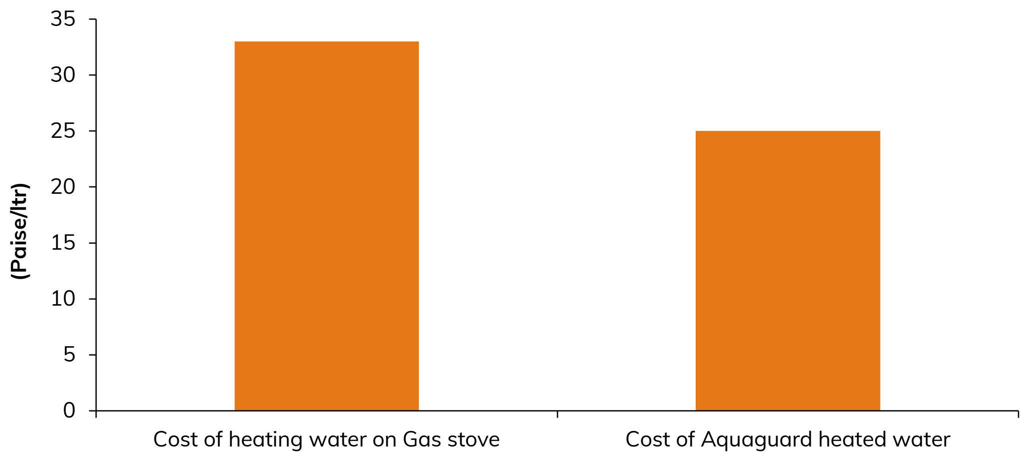
Source: Company data, I-Sec research

Products to target consumers who prefer hot water

The company is offering water purifiers with inbuilt heaters – many consumers prefer heating water for safer and healthier drinking. We believe the launch of water purifiers with heaters will help tap this set of consumers. We note, the trend of drinking hot water has accentuated since covid.

Also, the cost of heating water is relatively lower with Aquaguard, versus heating water on gas stoves. It also improves the value proposition of water purifiers.

Exhibit 19: Hot water from Aquaguard is cheaper than heating on a gas stove



Source: Company data, I-Sec research

New initiative to offer water purifiers on rental-basis to generate consumer trials

The company is now offering water purifiers on rental-basis (pilot project) without any maintenance cost and installation charges. We believe, this will encourage trials among consumers and also allow some consumers to continue with Eureka Forbes water purifiers. We note, many smaller water purifier companies are not (yet) offering such/similar models.

The success of this new initiative (to be measured only by FY25-26) will be crucial to drive penetration.

Exhibit 20: Rental model in water purifiers to generate consumer trials

Particulars	Aquaguard Rental cost
Machine cost	-
Usage	Unlimited
Activation charges	-
Maintenance costs	-
Rental cost (INR)	**699**
Electricity cost (INR)	50
Total cost (INR)	**749**
Cost per/Ltr (Paise)	25

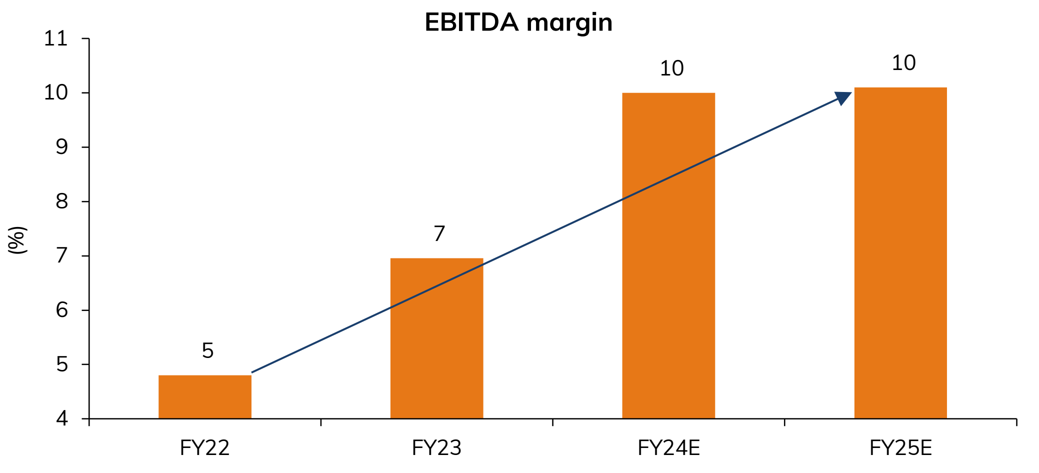
Source: Company data, I-Sec research

Improvement in margins to generate resources to stimulate growth

The company improved its EBITDA margin to 10% in Q1FY24, from 5.4% in Q4FY22. It has been able to boost gross margins due to: (1) Correction in commodity prices. (2) Normalisation of trade spends. We also believe steady investments in brand building will allow the company to strengthen the brand equity and elevate margins further.

We believe EBITDA margins can improve to mid-high teens considering benefits of cost rationalization and operating leverage. Steady improvement in margins will generate additional resources for the company and it will also allow the company to invest in R&D and brand building.

Exhibit 21: Steady improvement in EBITDA margins



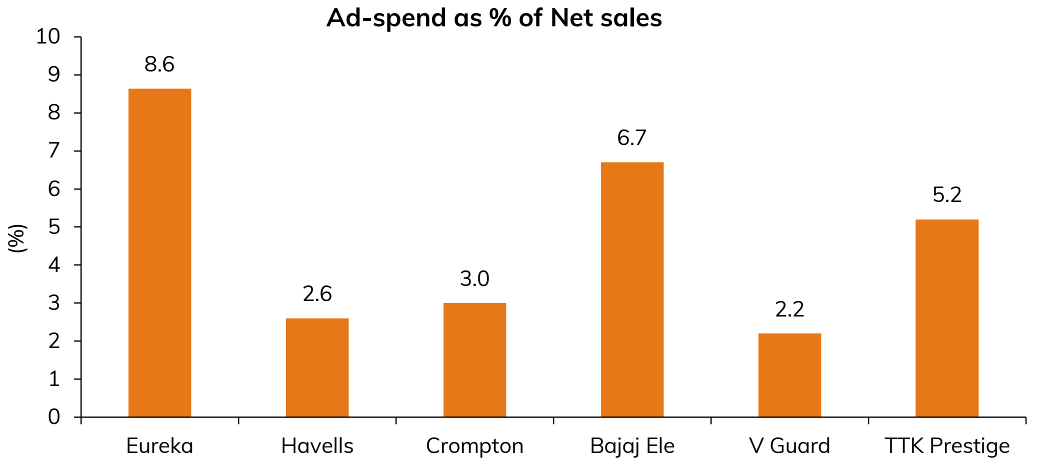
Source: Company data, I-Sec research

Strong investments in ad-spend to sales, versus peers

Compared to its peers in white goods and durables space, the company invests additional resources in brand building. We note that the company has invested >8% of its net sales on ad-spend over FY22-23.

Steady investments in ad-spend are likely to result in strengthening of market shares. In our view, the company has relatively higher share-of-voice than its market shares.

Exhibit 22: Strong investments in ad-spend vs peers (FY23)



Source: Company data, I-Sec research

Distribution expansion

The company follows a multi-channel distribution strategy with a strong presence across GT, MT and e-commerce. It has access to 20,000 retail outlets and also benefits from direct selling to consumers. It has also rolled out products through CSD and institutions.

Considering the universe of 250,000 outlets, which sells white goods and durables in India, we believe Eureka has strong scope to expand its distribution network.

Exhibit 23: Distribution expansion

Channel	Details
Direct sales	Large direct sales in water purifier and air purifier
General trade access to	20,000 outlets
Modern trade	Present across most MT channel
Ecommerce	Present across most E-com channel
B2B	Present in commercial water purifiers
Canteen stores	Present in CSD
Pin codes present in	>10,000 for services
Customer response centres	More than 150 in 120 cities

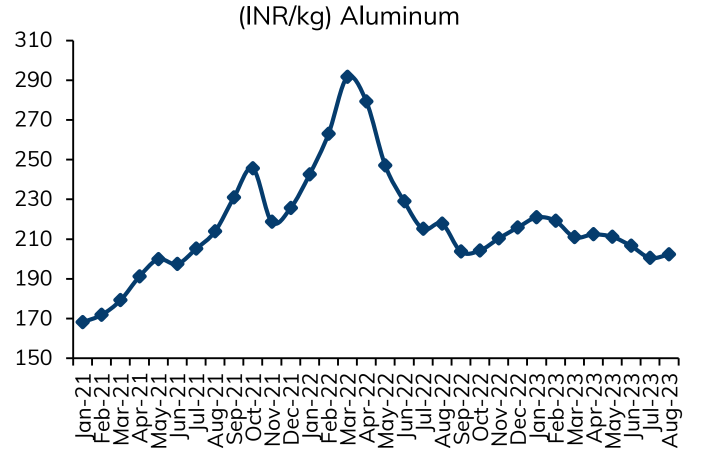
Source: Company data, I-Sec research

Beneficiary of correction in commodity prices

Most commodity prices have corrected over the past 15 months. We model the company may invest partial savings in additional trade margins and consumer offers. The portfolio rationalisation will also help to strengthen margins.

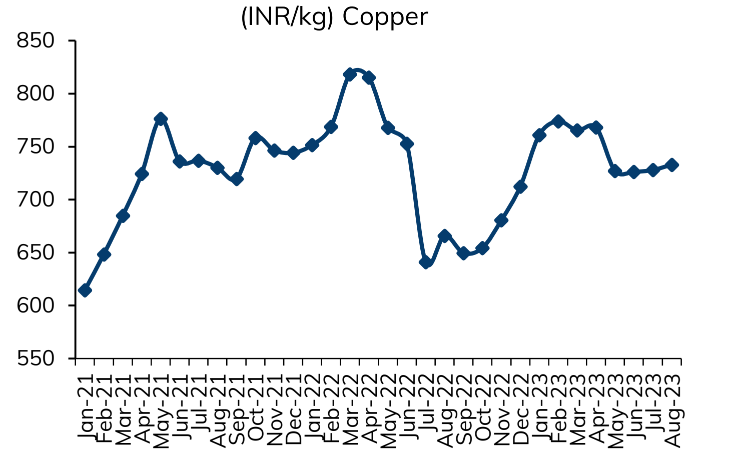
Key raw material prices

Exhibit 24: Aluminium prices continue to correct



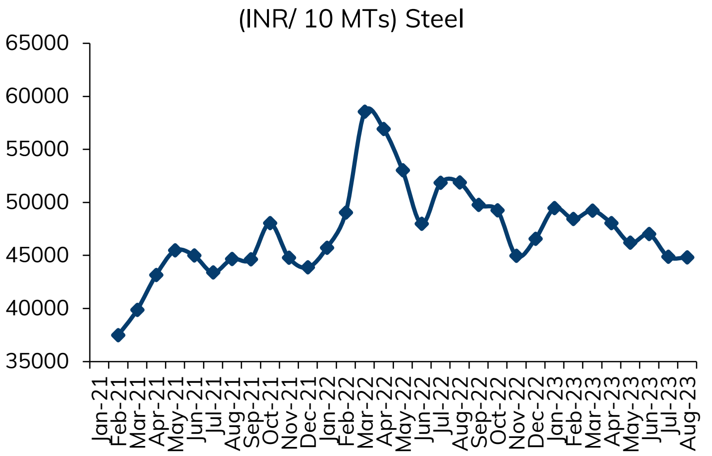
Source: Bloomberg, I-Sec research

Exhibit 25: Copper prices are up YoY



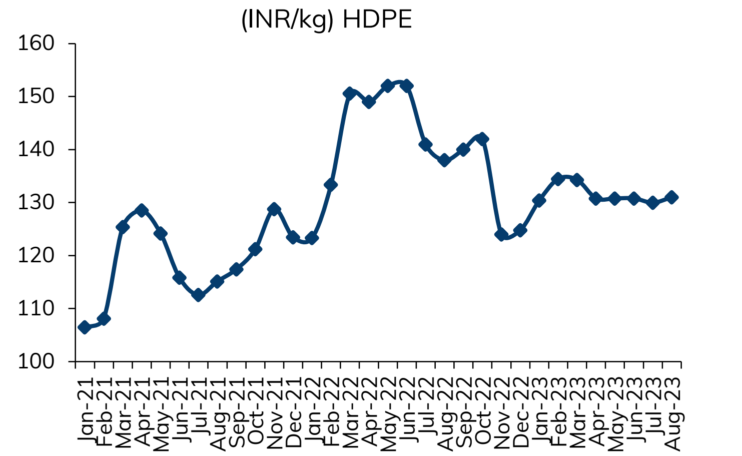
Source: Bloomberg, I-Sec research

Exhibit 26: Steel prices are moving south



Source: Bloomberg, I-Sec research

Exhibit 27: HDPE prices have corrected



Source: Bloomberg, I-Sec research

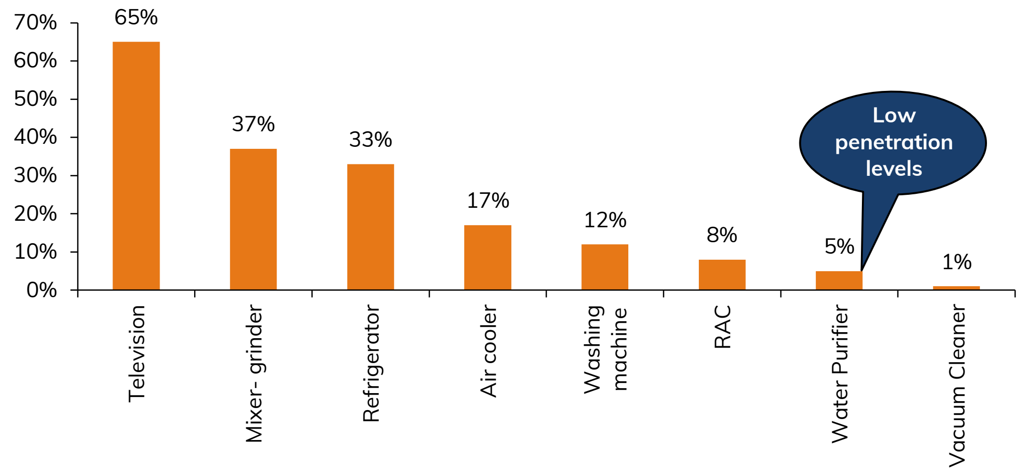
Industry's long-term growth potential

Low penetration levels

We note the penetration of key products of Eureka is less than 5%. The penetration of water purifiers is 5%, whereas penetration of vacuum cleaner is just ~1%. The penetration of air purifiers is negligible in India.

Given the benefits of these products, investments by water purifier and air purifier companies as well as rising affordability due to higher income levels, the penetration is likely to improve steadily over FY23–33.

Exhibit 28: Low penetration levels of water purifiers and air purifiers

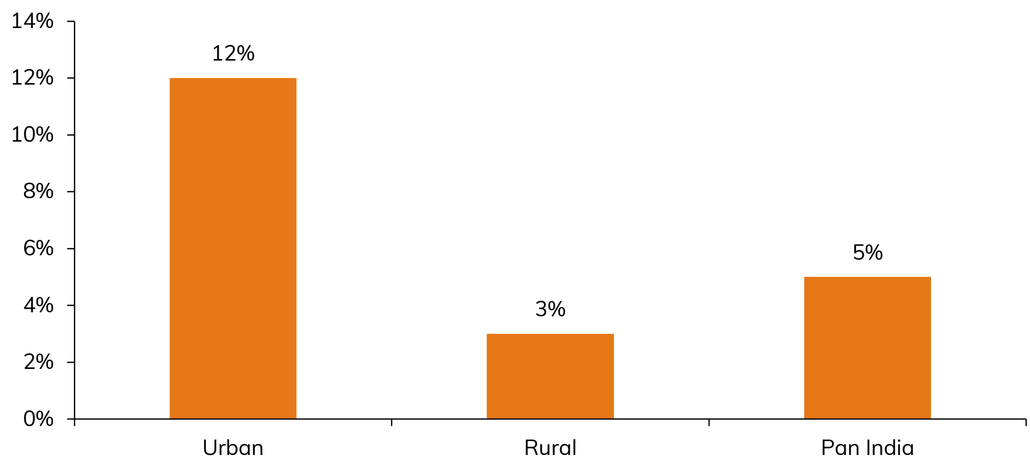


Source: Company data, I-Sec research

Low penetration across urban and rural markets of water purifiers

The penetration of water purifiers is less than 3% in rural markets, whereas the urban penetration is less than 12%. With improving availability of electricity across rural markets, we model the penetration levels to improve in rural markets too.

Exhibit 29: Penetration of water purifiers across urban and rural markets



Source: Company data, I-Sec research

Acceptance of water and air purifiers in 2025–2035 decade

We note, with rising needs as well as income levels, Indian families have steadily adopted white goods and durables in households. Radio was added in the Indian households from 1975–1985 as the basic entertainment medium; television penetrated during 1985–1995. Mixer and washing machines became popular during 1995–2005. We model 2025–2035 will be the key period for products like water purifiers, dishwashers, air purifiers and air conditioners.

Exhibit 30: Acceptance of water and air purifiers in the 2025–2035 decade

Decade	Acceptance of products in Indian households
1975-1985	Radio, Fans
1985-1995	Television
1995-2005	Mixer, Washing machine
2005-2015	Washing machine, Laptops
2015-2025	Refrigerators
2025-2035	Air conditioner, Dishwasher, Water and air purifier

Source: Company data, I-Sec research

Worsening pollution levels across cities in India

Pollution levels in Indian cities have deteriorated at an alarming level. We note the steady deterioration offers strong long-term opportunities for water and air purifier companies. We model Eureka Forbes to be a key beneficiary of this trend.

Exhibit 31: Water pollution is significantly higher than recommended levels

States wise number of partly affected districts with different contaminants in ground water of India - CY21	Salinity (Electrical Conductivity above 3000 micro mhos/cm)	Fluoride (above 1.5 mg/l)	Nitrate (above 45 mg/l)	Arsenic (above 0.01 mg/l)	Iron (above 1mg/l)	Lead (above 0.01 mg/l)	Cadmium (above 0.003 mg/l)	Chromium (above 0.05 mg/l)
Andhra Pradesh	12	12	13	3	7	-	-	-
Telangana	8	10	10	1	8	2	2	1
Assam	-	9	-	19	18	-	-	-
Arunachal Pradesh	-	-	-	4	-	-	-	-
Bihar	-	13	10	22	19	-	-	-
Chhattisgarh	1	19	12	1	17	1	1	1
Delhi	7	7	8	2	-	3	1	4
Goa	-	-	-	-	2	-	-	-
Gujarat	21	22	24	12	10	-	-	-
Haryana	18	21	21	15	17	17	7	1
Himachal Pradesh	-	-	6	1	-	-	-	-
Jammu & Kashmir	-	2	6	3	9	3	1	-
Jharkhand	-	12	11	2	6	1	-	-
Karnataka	29	30	29	2	22	-	-	-
Kerala	4	5	11		14	2		1
Madhya Pradesh	18	43	51	8	41	16		
Maharashtra	25	17	30		20	19		
Manipur	-	1	-	2	4	-	-	-
Meghalaya	-	1	-	-	6	-	-	-
Nagaland	-	1	-	-	1	-	-	-
Odisha	17	26	28	1	30			1
Punjab	10	19	21	10	9	6	8	10
Rajasthan	30	33	33	1	33	3		
Tamil Nadu	28	25	29	9	2	3	1	5
Tripura	-	-	-	-	4	-	-	-
Uttar Pradesh	13	34	59	28	15	10	2	3
Uttarakhand	-	-	4	5	-	-	-	-
West Bengal	6	8	5	9	16	6	2	2
Andaman& Nicobar	1	-	-	-	2	-	-	-
Daman & Diu	1	-	-	1	-	-	-	-
Puducherry	-	-	1	-	-	-	-	-
Total	**249**	**370**	**422**	**152**	**332**	**92**	**25**	**29**

Source: CPCB, Company data, I-Sec research

Exhibit 32: Air pollution remains higher than standard average levels across major cities

Air quality in 1mn+ cities of India under National Air Quality Monitoring Programme (NAMP) (in µg/m3)	Sulphur Dioxide (So2)					Nitrogen Dioxide (No2)				
	CY15	CY18	CY19	CY20	National air quality standard annual average	CY15	CY18	CY19	CY20	National air quality standard annual average
Delhi	5	6	5	4	50	65	73	70	68	40
Mumbai	4	2	2	2	50	25	21	27	32	40
Kolkata	7	6	8	8	50	56	44	42	49	40
Chennai	13	9	9	8	50	20	16	19	18	40
Bengaluru	6	2	3	2	50	20	30	25	24	40
Pune	23	37	37	15	50	62	75	87	55	40
Hyderabad	4	5	5	4	50	23	30	37	41	40
Ahmedabad	13	16	20	14	50	21	29	25	18	40

Source: CPCB, Company data, I-Sec research

Exhibit 33: Air pollution is higher than required levels across major cities in India

Air quality in 1mn+ cities of India under National Air Quality Monitoring Programme (NAMP) (in µg/m3)	Particulate Matter (PM)10					Particulate Matter (PM)2.5			
	CY15	CY18	CY19	CY20	National air quality standard annual average	CY18	CY19	CY20	National air quality standard annual average
Delhi	220	223	199	210	60	121	141	116	40
Mumbai	107	166	125	216	60	46	40	86	40
Kolkata	105	148	104	116	60	86	56	61	40
Chennai	59	78	73	55	60	34	36	25	40
Bengaluru	119	90	74	66	60	47	32	29	40
Pune	99	106	143	106	60	-	-	-	40
Hyderabad	93	105	99	80	60	55	40	30	40
Ahmedabad	89	236	135	102	60	73	37	28	40

Source: CPCB, Company data, I-Sec research

Solutions to India-specific problems; limited MNC competition

We model water contamination is a key problem in India and the steep reduction in air quality in metros is also one of the major problem in India. We believe these problems require solutions that are India-specific.

Hence, we model the MNC competition to be limited in these products and model Indian companies such as Eureka Forbes to be net beneficiaries of the growth. We also note MNCs are present in limited sub-segments/ variants and with limited price points.

Exhibit 34: Limited MNC competition – most major players are India-based

Segment	Key players
Water purifier	Eureka Forbes, Kent
Vacuum cleaner	Eureka Forbes, Dyson, TTK Prestige

Source: Company data, I-Sec research

High lifecycle value product

We note, products such as infant food is used from age of 0–2, whereas products like health food drinks (Horlicks, Boost etc) are generally consumed during the age group of 2–15. Products like water purifiers are required throughout life. Hence, we believe the products of Eureka have a high lifecycle value i.e. DCF value.

Exhibit 35: High DCF value

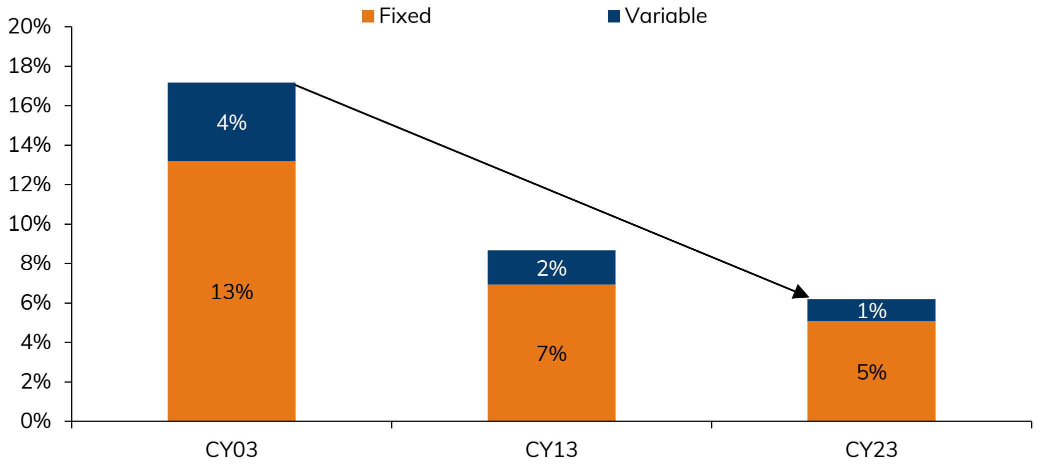
Segment	Age group	Lifecycle value
Infant food	0-2	Low
Health food drinks	2-15	Medium
Hair colour	35-75	High
Water purifier	0-Death	Very High
Air purifier	0-Death	Very High
Mobile phones	12-Death	Very high

Source: Company data, I-Sec research

Rising affordability of water purifiers

We note the affordability of water purifiers is rising, with less than 6% inflation in water purifiers versus the rising income levels. We model rising affordability to result in attracting more number of customers in the category with every passing year.

Exhibit 36: Steady improvement in affordability* of water purifiers



Source: Company data, I-Sec research *Cost of water purifier, AMC and electricity charges/ per capita GDP

Cost of housemaid > cost of vacuum cleaner

We believe, a domestic help charges ~INR 1,500/month for cleaning of the house. The automatic vacuum cleaner from Eureka Forbes costs ~INR 15,000. Even after factoring in electricity costs, we believe consumers can achieve breakeven in less than 12 months. Hence, we model a steady shift towards mechanisation and increase in TAM of the automated vacuum cleaner.

We note, a similar trend was also observed during 2000–2015 in washing machines. The cost of ownership of washing machine became lower than the cost of housemaids, resulting in healthy growth of washing machines.

Exhibit 37: Cost of ownership of automated vacuum machine < cost of housemaid

Particulars (INR)	Automatic vacuum cleaner	Housemaid	Comments
Annual salary		18,000	Salary incl. Diwali bonus
Depreciation of machine	3,000		Machine cost of INR 15,000 & depreciation @20%
Electricity cost	1,800		Assumed monthly electricity cost of INR 150
Maintenance cost	1,000		Cost of repairs of machine
Cost of consumables	600	600	surface cleaners, broom, wiping cloth etc
Total cost	**6,400**	**18,600**	

Source: Company data, I-Sec research

Need of vacuum cleaners post covid

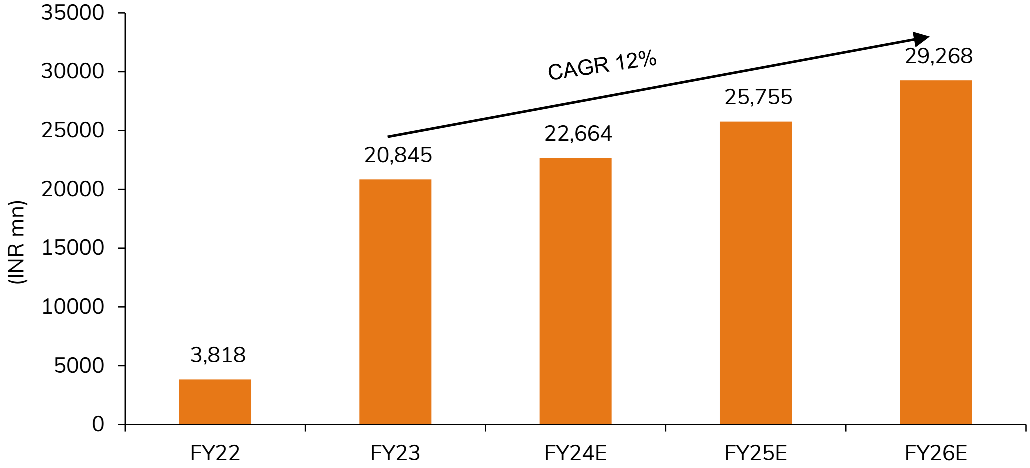
We believe there are two trends emerging as (1) people are spending more time at home post covid and (2) the maids take 3-4 leaves in a month. Hence, the people staying in the houses need to clean the houses on their own at-least 3-4 times in a month. Though maids work in many Indian households, we believe the consumers need to still own vacuum cleaners in their houses.

Financial Summary

Revenues and growth rates

We expect the company to report revenue CAGR of 12% over FY23–FY26 led by distribution expansion, premiumisation of portfolio and higher growth in services business.

Exhibit 38: Revenue and growth rates

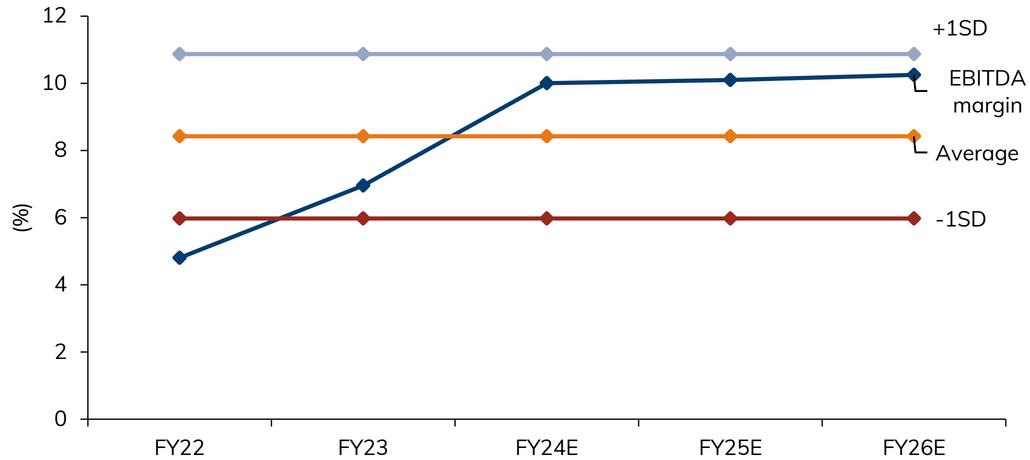


Source: Company data, I-Sec research

EBITDA margin to be ~10% levels; Potential to inch upwards in medium term

The company has invested significantly in cost-saving initiatives. We model its EBITDA margins to steadily expand owing to the higher scale of operations and correction in commodity prices. Some of the additional savings will be reinvested in the business to strengthen its brands.

Exhibit 39: EBITDA margin to move northwards

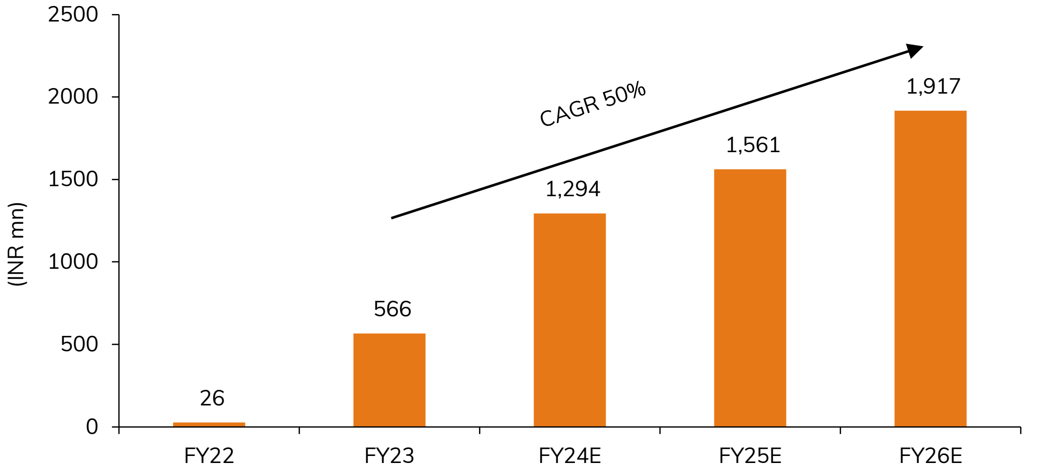


Source: Company data, I-Sec research

Strong PAT growth rates

We model PAT growth to remain strong led by strong revenue growth and improving EBITDA margins. We also model strong FCF generation on Balance Sheet to result in higher other income, leading to higher PAT growth than revenue/EBITDA growth. We model effective tax rate of 25.5% over FY24–26.

Exhibit 40: Net profit and growth rates

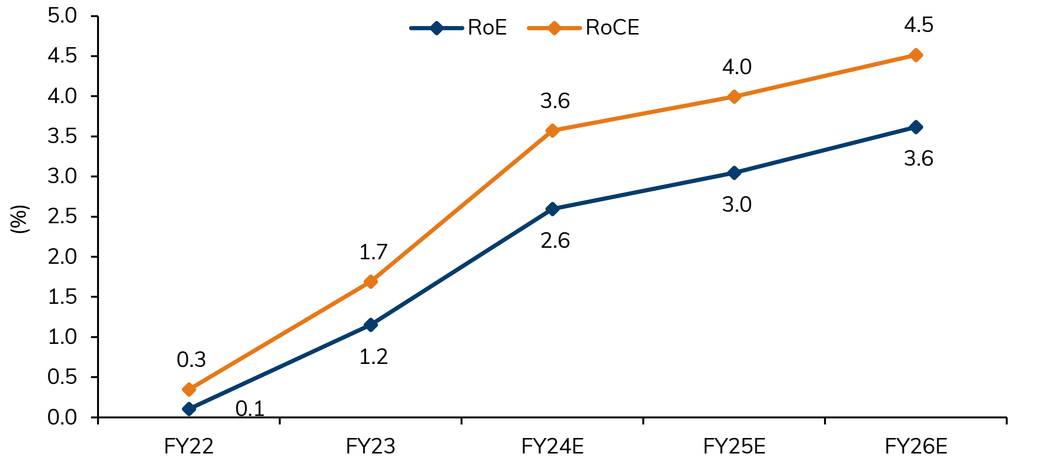


Source: Company data, I-Sec research

Return ratios below cost of capital; strong RoIC

While the return ratios are in low-single-digits, we note the RoIC is strong and in a value accretive zone (> cost of capital). RoIC adjusted for intangible assets and excess cash on the Balance Sheet is likely to be excess of 100% over FY24-26.

Exhibit 41: RoE and RoCE are inching upwards

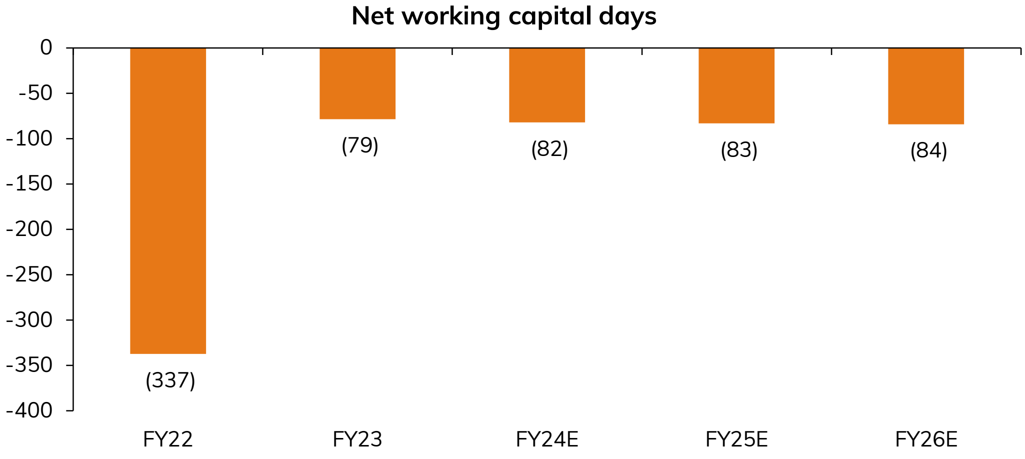


Source: Company data, I-Sec research

Negative net working capital days

The company's debtors and inventory is ~16% of its net sales. But, we note, its current liabilities are higher than 40% of net sales. This results in negative working capital for the company and consequently higher RoIC.

Exhibit 42: Negative net working capital days

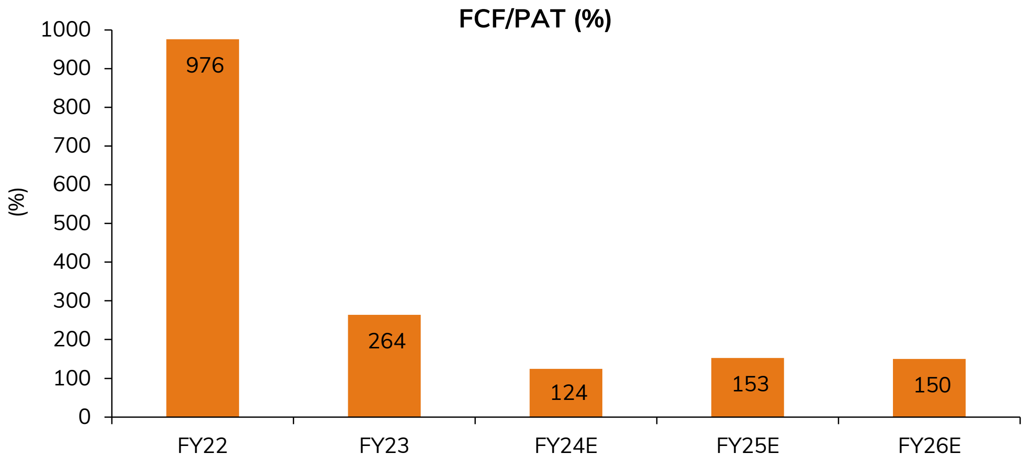


Source: Company data, I-Sec research

FCF generation remains strong

The company has negative working capital and with limited capex, the OCF and FCF generation is likely to remain strong ahead. We model the FCF/PAT to be in excess of 100% over FY24–26 led by strong earnings, limited capex and negative working capital.

Exhibit 43: FCF generation remains strong



Source: Company data, I-Sec research

Key financials

Exhibit 44: Key financials

INR mn	FY22	FY23	FY24E	FY25E	FY26E
Net revenues	**3,818**	**20,845**	**22,664**	**25,755**	**29,268**
Growth (%)		446.0	8.7	13.6	13.6
Gross profit	2,202	12,513	13,152	14,938	16,976
Gross margin (%)	57.7	60.0	58.0	58.0	58.0
EBITDA	**183**	**1,450**	**2,266**	**2,601**	**3,000**
EBITDA margin (%)	4.8	7.0	10.0	10.1	10.3
PBT	71	785	1,737	2,095	2,573
PBT margin (%)	1.8	3.8	7.7	8.1	8.8
Tax rate (%)	63.0	28.1	25.5	25.5	25.5
PAT	**26**	**566**	**1,294**	**1,561**	**1,917**
PAT margin (%)	0.7	2.7	5.7	6.1	6.6
PAT growth (%)		2,077	129	21	23
Capex	(54)	(132)	(700)	(400)	(400)
Net working capital days	(337)	(79)	(82)	(83)	(84)
Operating cash flow	309	1,621	2,305	2,782	3,284
Free cash flow	255	1,489	1,605	2,382	2,884
OCF/EBITDA (%)	168.6	111.8	101.7	106.9	109.5

Source: Company data, I-Sec research

Valuation and risks

DCF valuation

We have valued the company as per DCF based methodology. We model the company to generate revenue and PAT CAGR of 12% and 50%, respectively over FY23-26. We also model the company to steadily improve its return ratios over FY23–26. At our DCF-based target price of INR 700, the implied P/E on FY26E earnings works out to 71x.

Exhibit 45: DCF valuation

Particulars	Amt (INR)
Cost of Equity (%)	12.5%
Terminal growth rate (%)	3.0%
Discounted interim cash flows (INR mn)	47,165
Discounted terminal value (INR mn)	88,271
Total equity value (INR mn)	1,35,435
Value per share (INR)	**700**

Source: Company data, I-Sec research

Peer group comparison

Exhibit 46: Peer group comparison

Company	CMP	RoE (%)	RoCE (%)	CAGR FY23-FY25E (%)			P/E (x)	
	(INR)	FY24E	FY24E	Revenues	EBITDA	PAT	FY24E	FY25E
Eureka Forbes	488	2.6	3.6	11.2	33.9	66.1	73.0	60.5
Amber	2,977	9.7	9.8	19.4	27.3	35.1	49.5	35.0
Bajaj Electricals	1,102	11.8	13.1	4.8	14.1	16.6	53.8	43.2
Crompton Cons	310	21.1	22.5	7.5	10.6	16.0	33.7	31.6
Dixon	5,289	21.6	23.7	22.2	23.6	28.3	100.2	74.5
Havells	1,389	18.8	22.1	14.5	26.0	28.1	62.2	49.4
Orient Electric	222	21.0	24.7	13.9	39.5	44.7	37.4	29.7
Polycab	5,343	23.3	27.4	19.8	21.8	24.3	46.5	40.6
Syrma SGS	612	10.4	10.0	36.7	30.9	36.1	63.5	49.0
TTK Prestige	783	13.5	15.5	7.6	12.9	14.0	38.9	32.8
V-Guard	307	15.8	17.4	20.3	36.6	37.2	46.4	37.3
Voltas	863	11.1	10.7	13.4	25.6	41.2	45.5	38.1
Whirlpool	1,625	8.0	7.9	9.6	33.1	28.4	71.3	57.1

Source: Company data, I-Sec research

Key risks

- Steep increase in commodity prices may impact the earnings estimates.
- Higher competitive pressures may impact the earnings.
- Failure of new product launches may also impact the company's earnings estimates.

About the company and management

Birth of Eureka Forbes as a separate listed entity

Eureka Forbes was carved out as a separate legal entity by Forbes & Co., as part of a corporate restructuring of Forbes & Co. After separate listing of Eureka Forbes, Advent Private Equity acquired 72.6% stake in Eureka Forbes in 2022.

The company has strengthened its senior management team by inducting multiple professionals over FY22–23.

Exhibit 47: Timeline of Eureka Forbes

Year	Activity
1982	Launch of Euroclean
1984	Launch of Aquaguard
2000	Launch of Eureka Forbes Institute of Environment
2022	Separate listing of Eureka Forbes
2022	Acquisition of Eureka Forbes by Advent PE
2023	One of the largest water and air purification company in India

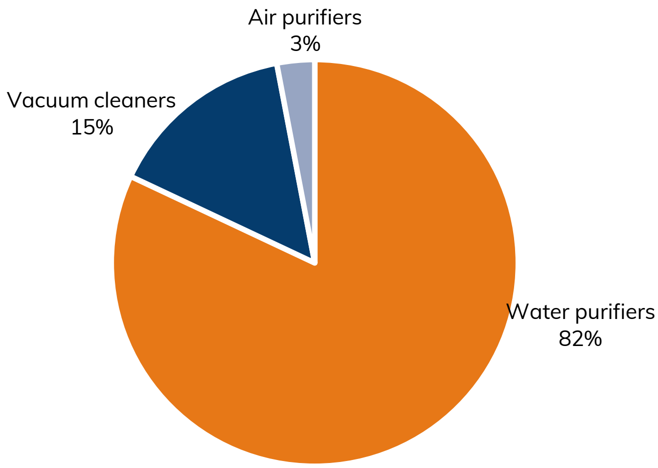
Source: Company data, I-Sec research

Revenue breakup of Eureka Forbes

Water purifier is the largest segment by revenues for Eureka Forbes, accounting for ~82% of its revenues. Vacuum cleaner and air purifiers account for ~15% and ~3%, respectively, of revenues.

The products business accounts for 70% of revenues and services account for 30%.

Exhibit 48: Indicative revenue breakup (FY23)



Source: Company data, I-Sec research

Board of directors and senior managerial personnel

Mr. Arvind Uppal is the chairman of the company. He has a strong understanding of white goods and durables due to his experience in Whirlpool and Amber. Pratik Pota is the CEO of the company and has strong experience of running consumer businesses such as Jubilant Foodworks. Gaurav Khandelwal is the CFO of the company and has previously worked at senior positions in HUL.

The company has also inducted multiple senior industry professionals across major business functions.

Exhibit 49: Board of directors and senior management personnel

Person	Role
Arvind Uppal	Chairman
Pratik Pota	Managing Director & CEO
Sahil Dalal	Non-Executive, Non-Independent Director
Vinod Rao	Non Executive Independent Director
Gurveen Singh	Non Executive Independent Director
Homi Adi Katgara	Non Executive Independent Director
Shashank Samant	Non Executive Independent Director
Shubham Srivastava	Chief Product & Technology Officer
Nithyanand Shankar	Chief Digital Business Officer
Satish Satyarthi	Chief Innovation and R&D Officer
Mahnaz Shaikh	Chief Human Resources Officer
Ajit Dheer	COO
Anurag Kumar	Chief Growth Officer
Anirudha Karnataki	Chief Supply Chain & Procurement Officer
Vikram Surendran	President
Binaifer Khanna	Chief People Officer
Srikanth Batni	CEO- Service & CRM
Pragya Kaul	Company Secretary

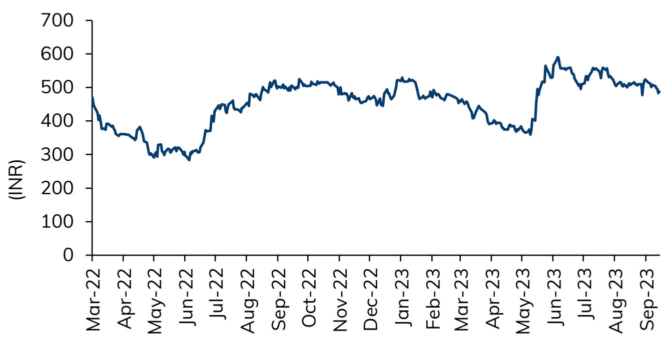
Source: Company data, I-Sec research

Exhibit 50: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	73.2	72.6	72.6
Institutional investors	13.0	12.8	13.5
MFs and others	1.2	1.4	2.0
FIs/Banks	0.1	0.1	0.1
Insurance	0.2	0.4	0.6
FIIs	11.5	10.9	10.8
Others	13.8	14.6	13.9

Source: Bloomberg

Exhibit 51: Price chart



Source: Bloomberg

Financials

Exhibit 52: Income statement

INR Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	**3,818**	**20,845**	**22,664**	**25,755**	**29,268**
Growth (%)	4,765.4	446.0	8.7	13.6	13.6
Expenditure					
Cost of Goods Sold	1,615	8,332	9,512	10,817	12,292
Staff Cost	491	3,031	3,073	3,506	3,998
Ad-spend & Sales promotion	337	1,800	1,826	2,089	2,388
Freight forwarding & delivery	122	650	703	798	907
Service charges	615	2,960	2,873	3,306	3,798
Other Expenses	319	1,896	1,640	1,792	1,961
EBITDA*	**183**	**1,450**	**2,266**	**2,601**	**3,000**
EBITDA margin (%)	4.8	7.0	10.0	10.1	10.3
Depreciation	92	565	392	448	488
EBIT	**92**	**886**	**1,875**	**2,153**	**2,512**
Interest Expense & Bank Exps	44	203	212	212	212
Other Income	23	102	74	154	273
Profit Before Tax	71	785	1,737	2,095	2,573
Income Taxes	44	220	443	534	656
Income tax rate (%)	63.0	28.1	25.5	25.5	25.5
Adjusted Profit After Tax*	26	565	1,294	1,561	1,917
Growth (%)	(260.4)	2,060.1	129.0	20.7	22.8
Extra-ordinary Items	(1)	(350)	-	-	-
Profit for Shareholders	25	216	1,294	1,561	1,917

Source: Company data, I-Sec research *Adjusting for ESOP costs

Exhibit 53: Balance Sheet

INR Mn	FY22	FY23	FY24E	FY25E	FY26E
Sources of Funds					
Share Capital	1,935	1,935	1,935	1,935	1,935
Reserves and Surplus	38,826	39,042	40,335	41,897	43,814
Deferred Tax Liability	8,274	8,190	8,190	8,190	8,190
Net Worth	**49,035**	**49,166**	**50,460**	**52,021**	**53,938**
Net Worth Net of Rev. Reserve	49,035	49,166	50,460	52,021	53,938
Pref.Capital/Minority Interest	13	12	12	12	12
Secured Loans	2,428	1,210	1,210	1,210	1,210
Unsecured Loans	1,431	1,434	1,434	1,434	1,434
Total Loans	3,859	2,644	2,644	2,644	2,644
Total	**52,907**	**51,822**	**53,116**	**54,677**	**56,594**
Application of Funds					
Gross Block	2,975	3,557	4,282	4,682	5,082
Less: Depreciation	51	615	1,007	1,455	1,943
Net Block	2,924	2,942	3,274	3,226	3,138
Capital WIP	1	25	-	-	-
Goodwill/ Intangibles	52,121	51,867	51,867	51,867	51,867
Liquid Investments	617	758	758	758	758
Other Investments	583	503	503	503	503
Current Assets	5,029	4,211	6,005	8,882	12,327
Inventories	2,903	2,200	2,266	2,575	2,927
Sundry Debtors	1,503	1,237	1,360	1,545	1,756
Cash & Bank Balances	188	211	1,816	4,198	7,081
Loans & Advances	435	563	563	563	563
Current Liabilities	8,368	8,484	9,292	10,559	12,000
Liabilities	8,154	8,295	9,066	10,302	11,707
Provisions	214	189	227	258	293
Net Current Assets	(3,339)	(4,273)	(3,287)	(1,678)	327
Total	**52,907**	**51,822**	**53,116**	**54,677**	**56,594**

Source: Company data, I-Sec research

Exhibit 54: Cash flow statement

INR Mn	FY22	FY23	FY24E	FY25E	FY26E
OCF before W/C changes	129	1,299	1,686	2,009	2,405
W/c Changes	180	322	619	773	878
OCF After W/C Changes	309	1,621	2,305	2,782	3,284
Cash Flow from Investing					
Capital Expenditure	(54)	(213)	(700)	(400)	(400)
Disposal	-	80	-	-	-
Investments	14	(135)	-	-	-
Acquisitions	-	-	-	-	-
Net Cash used in Investing	**(40)**	**(268)**	**(700)**	**(400)**	**(400)**
Cash Flow from Financing					
Changes in Share Capital	-	-	-	-	-
Changes in Loans	(21)	(1,346)	-	-	-
Dividends	-	-	-	-	-
Net Cash used in Financing	**(21)**	**(1,346)**	**-**	**-**	**-**
Extra-ordinary Items	-	-	-	-	-
Changes in Cash & Equivalents	**248**	**8**	**1,605**	**2,382**	**2,884**
Opening Cash & Equivalents	2	178	211	1,816	4,198
Closing Cash & Equivalents	250	185	1,816	4,198	7,081
Free Cash Flow	**255**	**1,489**	**1,605**	**2,382**	**2,884**

Source: Company data, I-Sec research

Exhibit 55: Ratio Analysis

Ratio Analysis	FY22	FY23	FY24E	FY25E	FY26E
Profitability Ratios (%)					
Gross margin	57.7	60.0	58.0	58.0	58.0
EBITDA Margin	4.8	7.0	10.0	10.1	10.3
EBIT Margin	2.4	4.2	8.3	8.4	8.6
PBT Margin	1.8	3.8	7.7	8.1	8.8
PAT Margin	0.7	2.7	5.7	6.1	6.6
Income Tax Rate	63.0	28.1	25.5	25.5	25.5
RoE	0.1	1.2	2.6	3.0	3.6
RoCE	0.3	1.7	3.6	4.0	4.5
Major Costs as % of Net Sales					
Cost of Goods Sold	42.3	40.0	38.0	38.0	38.0
Staff Cost	12.9	14.5	14.0	14.0	14.0
Ad-spend & Sales promotion	8.8	8.6	8.5	8.5	8.5
Freight forwarding & delivery	3.2	3.1	3.1	3.1	3.1
Service charges	16.1	14.2	14.0	14.0	14.0
Other Expenses	8.4	9.1	9.0	8.9	8.8
Per Share Data (INR)					
Earnings Per Share	0.1	2.9	6.7	8.1	9.9
Growth (%)	(104.0)	2,076.8	128.7	20.7	22.8
Book Value per Share	253.4	254.1	260.8	268.9	278.8
Growth (%)	88,105.9	0.3	2.6	3.1	3.7
Turnover Ratios (%)					
Debtors Turnover ratio	39.4	5.9	6.0	6.0	6.0
Current Liabilities Turnover Ratio	213.6	39.8	40.0	40.0	40.0
Inventory Turnover Ratio	76.0	10.6	10.0	10.0	10.0
Fixed Assets Turnover Ratio	76.6	14.2	14.4	12.5	10.7
Valuation Ratios (x)					
Price Earnings	3,632.7	166.9	73.0	60.5	49.3
Price/Book Value	1.9	1.9	1.9	1.8	1.8
EV/Sales	25.2	4.6	4.2	3.7	3.3
EV/EBITDA	524.1	66.3	42.4	36.9	32.0
Other Ratios					
Net debt/Equity (x)	0.1	0.0	0.0	(0.0)	(0.1)
FCF/EPS (%)	975.8	263.6	124.1	152.6	150.4
OCF/Sales (%)	8.1	7.8	10.2	10.8	11.2

Source: Company data, I-Sec research

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