

20 March 2024

India | Equity Research | Company Update

Eureka Forbes

White Goods

Introduction of water purifiers with free servicing by peers – concerns overdone in our view

Smaller players in the water purification market have introduced a differentiated offering – free servicing for initial 24 to 30 months. For Eureka Forbes, this may increase the cost of acquisition of new consumers, but we believe the concern is overdone as: 1) most of the variants introduced by smaller players are at a premium price point of INR10,000-plus, whereas Eureka is trying to drive growth at the bottom of pyramid with the launch of variant at INR6,499; 2) The pan-India industry penetration level is still ~5% (urban: 12%), which indicates healthy long-term growth potential for most incumbents; 3) Eureka continues to benefit from strong brand equity and established distribution. We also note players such as Havells, Tata Swach and V Guard have failed to gain more than 5% market share in water purifiers, indicating Aquaguard's strong brand equity. Given strong business tailwinds, we remain constructive on Eureka Forbes. Maintain **BUY** with a DCF-based unchanged TP of INR 650.

Livpure launches water purifiers – free 30-month maintenance

Livpure has introduced 'Allura', a water purifier range, with free maintenance for a period of 30 months. We note that consumers are likely to save ~INR 3,000 p.a. in maintenance cost. It also reduces the hassle of registering for the services and maintenance. However, the higher purchase price (>INR 10,000) may result in attracting only the premium end of consumers

Urban Company's water purifiers – no servicing for two years

Urban Company has introduced a water purifier that does not need servicing for two years. While the product offers multiple benefits – RO+UV water purification and alkaline water – we note, the price point is north of INR 15,000.

Low penetration indicates long-term growth potential

While competition is only likely to intensify, we note that industry penetration of water purifiers is still ~5%; even urban penetration is a mere ~12%. Hence, there is strong potential for most players to maintain low-mid teen growth in the near term.

Differentiated offering by peers

We believe servicing income (~30% of net sales) is an integral part of Eureka's business model and sports higher RoCE against other business segments, considering it works on negative working capital. However, we believe with multiple players offering free servicing, there will be higher cost of acquisition of new consumers in the long term.

Maintain BUY

We remain structurally positive on Eureka and model it to report revenue and PAT CAGRs of 11.1% and 48.5%, respectively, over FY23-FY26E. We maintain **BUY** with a DCF-based unchanged TP of INR 650, which implies P/E of 68x FY26E. Key risks are steep increase in competitive pressures and higher commodity prices.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	20,845	22,156	25,181	28,620
EBITDA	1,450	2,024	2,543	2,934
EBITDA Margin (%)	7.0	9.1	10.1	10.3
Net Profit	566	1,114	1,506	1,853
EPS (INR)	2.9	5.8	7.8	9.6
EPS % Chg YoY	2,076.8	96.8	35.3	23.0
P/E (x)	153.8	78.1	57.8	46.9
EV/EBITDA (x)	60.8	42.9	33.3	27.9
RoCE (%)	1.4	2.8	3.4	3.9
RoE (%)	1.4	2.7	3.5	4.2

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Market Data

Market Cap (INR)	87bn
Market Cap (USD)	1,047mn
Bloomberg Code	EUREKAFO IN
Reuters Code	EURK.BO
52-week Range (INR)	599 /355
Free Float (%)	25.0
ADTV-3M (mn) (USD)	3.5

Price Performance (%)	3m	6m	12m
Absolute	(13.8)	(12.6)	(3.4)
Relative to Sensex	(14.6)	(19.2)	(27.5)

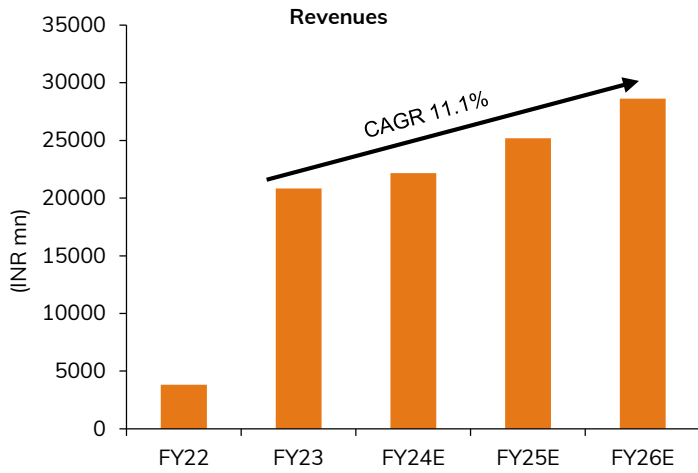
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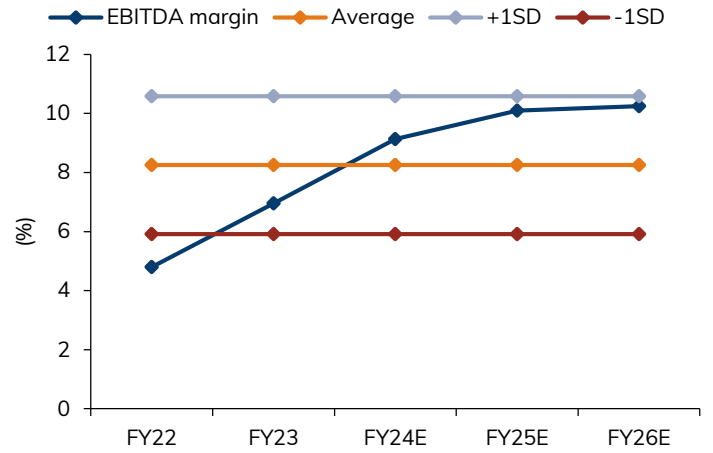
Key indicators – annual

Exhibit 1: Revenue and revenue growth



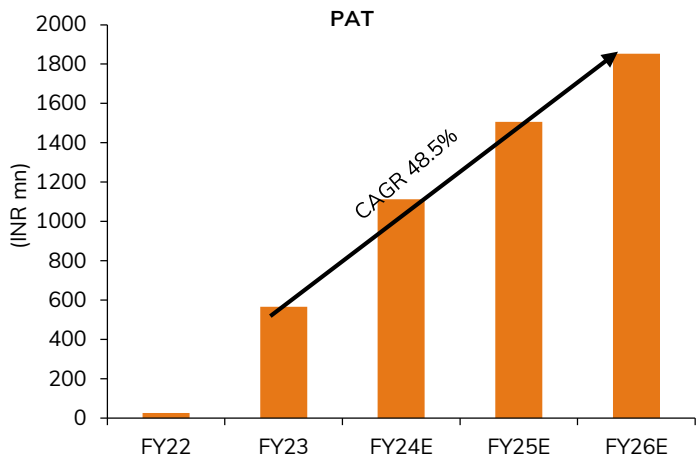
Source: Company data, I-Sec research

Exhibit 2: EBITDA margin



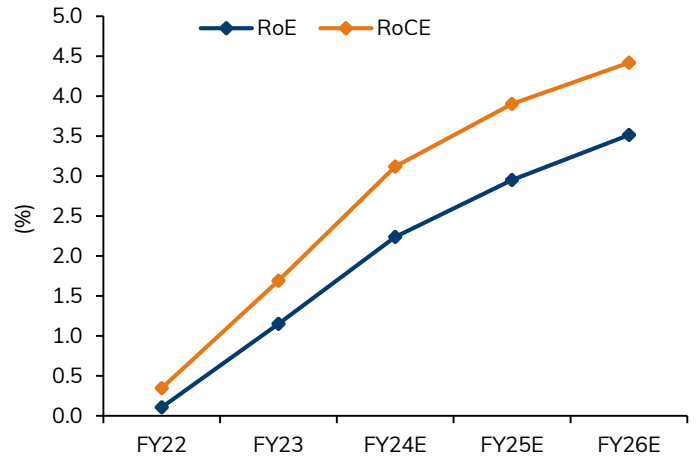
Source: Company data, I-Sec research

Exhibit 3: PAT and PAT growth



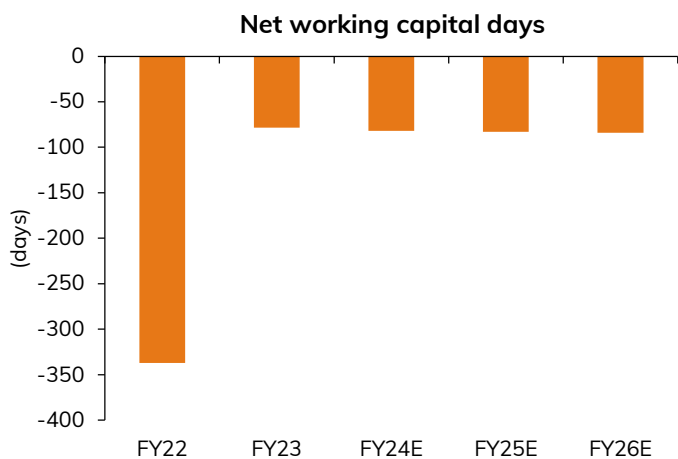
Source: Company data, I-Sec research

Exhibit 4: RoE and RoCE



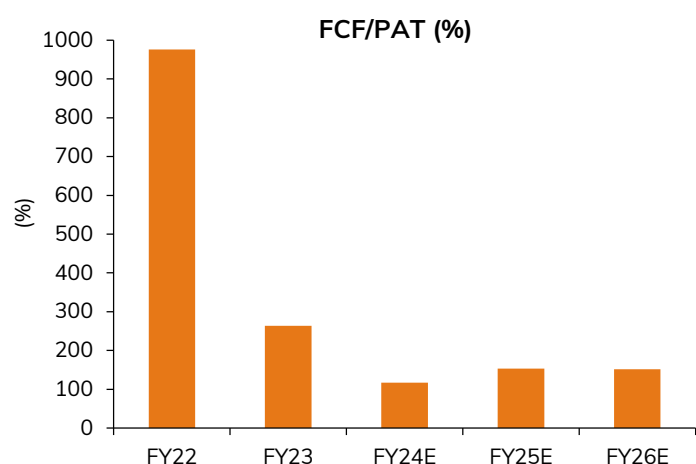
Source: Company data, I-Sec research

Exhibit 5: Net working capital days



Source: Company data, I-Sec research

Exhibit 6: FCF/PAT (%)



Source: Company data, I-Sec research

Valuation and risks

We model Eureka Forbes to report revenue and PAT CAGRs of 11.1% and 48.5% over FY23-FY26E. At our DCF-based unchanged target price of INR 650, the implied P/E works out to 68x FY26E EPS. Maintain **BUY**.

Exhibit 7: DCF-based valuation

Particulars	
Cost of Equity (%)	12.5%
Terminal growth rate (%)	3.0%
Discounted interim cash flows (INR mn)	44,371
Discounted terminal value (INR mn)	81,427
Total equity value (INR mn)	1,25,798
Value per share (INR)	650

Source: Company data, I-Sec research

Risks

Sharp increase in input prices and competitive pressures

Major increase in input prices and/or increase in competitive pressures will likely result in downside to our estimates.

Delays/failure in launch of new products

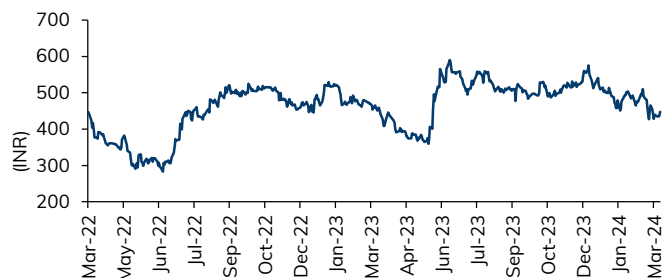
Any delays/failure in launch of new products may result in lower earnings than estimated.

Exhibit 8: Shareholding pattern

%	Jun'23	Sep'23	Dec'23
Promoters	72.6	72.6	72.6
Institutional investors	13.5	14.1	14.8
MFs and others	2.0	2.8	3.3
FIs/Banks	0.1	0.1	0.1
Insurance	0.6	0.6	0.6
FIIIs	10.8	10.6	10.8
Others	13.9	13.4	12.6

Source: Bloomberg

Exhibit 9: Price chart



Source: Bloomberg

Financial Summary

Exhibit 10: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	20,845	22,156	25,181	28,620
Operating Expenses	19,395	20,132	22,637	25,686
EBITDA	1,450	2,024	2,543	2,934
EBITDA Margin (%)	7.0	9.1	10.1	10.3
Depreciation & Amortization	565	392	448	488
EBIT	886	1,633	2,095	2,445
Interest expenditure	203	212	212	212
Other Non-operating Income	102	74	139	254
Recurring PBT	785	1,495	2,022	2,488
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	220	381	516	634
PAT	565	1,114	1,506	1,853
Less: Minority Interest	(1)	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	565	1,114	1,506	1,853
Net Income (Adjusted)	566	1,114	1,506	1,853

Source Company data, I-Sec research

Exhibit 11: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	4,211	5,617	8,411	11,763
of which cash & cash eqv.	211	1,509	3,819	6,621
Total Current Liabilities & Provisions	8,484	9,084	10,324	11,734
Net Current Assets	(4,273)	(3,467)	(1,913)	29
Investments	1,261	1,261	1,261	1,261
Net Fixed Assets	2,942	3,274	3,226	3,138
ROU Assets	-	-	-	-
Capital Work-in-Progress	25	-	-	-
Total Intangible Assets	51,867	51,867	51,867	51,867
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	51,822	52,935	54,442	56,295
Liabilities				
Borrowings	2,644	2,644	2,644	2,644
Deferred Tax Liability	8,190	8,190	8,190	8,190
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	1,935	1,935	1,935	1,935
Reserves & Surplus	39,042	40,155	41,662	43,515
Total Net Worth	40,976	42,090	43,596	45,450
Minority Interest	12	12	12	12
Total Liabilities	51,822	52,935	54,442	56,295

Source Company data, I-Sec research

Exhibit 12: Quarterly trend

(INR mn, year ending March)

	Mar-23	Jun-23	Sept-23	Dec-23
Net Sales	5,086	5,048	5,914	5,394
% growth (YoY)	35.9	(4.1)	2.6	13.9
EBITDA	528	505	521	427
Margin %	10.4	10.0	8.8	7.9
Other Income	40	20	18	31
Extraordinaries	(138)	(14)	4	(4)
Adjusted Net Profit	159	241	263	225

Source Company data, I-Sec research

Exhibit 13: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	1,621	1,998	2,711	3,201
Working Capital Changes	322	492	756	860
Capital Commitments	(213)	(700)	(400)	(400)
Free Cashflow	1,409	1,298	2,311	2,801
Other investing cashflow	(55)	-	-	-
Cashflow from Investing Activities	(268)	(700)	(400)	(400)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(1,346)	-	-	-
Dividend paid	-	-	-	-
Others	-	-	-	-
Cash flow from Financing Activities	(1,346)	-	-	-
Chg. in Cash & Bank balance	8	1,298	2,311	2,801
Closing cash & balance	185	1,509	3,819	6,621

Source Company data, I-Sec research

Exhibit 14: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	2.9	5.8	7.8	9.6
Adjusted EPS (Diluted)	2.9	5.8	7.8	9.6
Cash EPS	5.8	7.8	10.1	12.1
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	211.8	217.5	225.3	234.9
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	446.0	6.3	13.6	13.7
EBITDA	690.8	39.6	25.6	15.3
EPS (INR)	2,076.8	96.8	35.3	23.0
Valuation Ratios (x)				
P/E	153.8	78.1	57.8	46.9
P/CEPS	77.0	57.8	44.5	37.2
P/BV	2.1	2.1	2.0	1.9
EV / EBITDA	60.8	42.9	33.3	27.9
P / Sales	4.2	3.9	3.5	3.0
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	60.0	57.1	57.9	57.9
EBITDA Margins (%)	7.0	9.1	10.1	10.3
Effective Tax Rate (%)	28.1	25.5	25.5	25.5
Net Profit Margins (%)	2.7	5.0	6.0	6.5
NWC / Total Assets (%)	(8.7)	(9.4)	(10.5)	(11.7)
Net Debt / Equity (x)	0.0	0.0	(0.1)	(0.1)
Net Debt / EBITDA (x)	0.8	(0.1)	(1.0)	(1.8)
Profitability Ratios				
RoCE (%)	1.4	2.8	3.4	3.9
RoE (%)	1.4	2.7	3.5	4.2
RoIC (%)	1.4	2.8	3.4	3.9
Fixed Asset Turnover (x)	6.4	5.7	5.6	5.9
Inventory Turnover Days	65	38	39	39
Receivables Days	37	23	23	23
Payables Days	246	150	155	155

Source Company data, I-Sec research

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