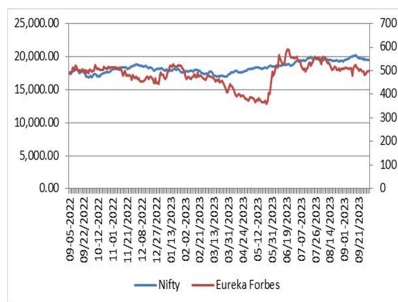


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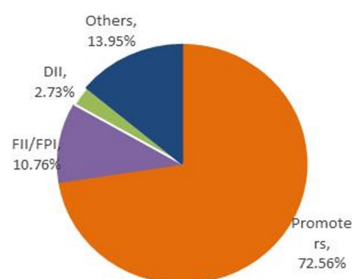
CMP:	Rs 500
2 Year Target:	Rs 560

Face Value	10.00
Market Cap (Rs cr)	9,667
52 week high/low	599/355
Shares O/S (Cr)	19.30
Book Value per Share (Rs)	212
Sensex	65,631
Nifty	19,546

1 yr. Price Chart of Stock and Nifty



Shareholding pattern as on 30 June 23



Investor's Rationale

➤ 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..

➤ Valuation

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. We have valued the stock at 69x FY25E and arrive at target price of Rs 560.

	FY23	FY24E	FY25E	FY26E
Net Sales	20845	22664	25755	29268
EBITDA	1450	2266	2601	3000
Profit for Shareholders	216	1294	1561	1917
EV/EBITDA	66.3	42.4	36.9	32
Price Earnings	166.9	73	60.5	49.3
Price/Book Value	1.9	1.9	1.8	1.8
EV/Sales	4.6	4.2	3.7	3.3
RoCE	1.7	3.6	4	4.5
RoE	1.2	2.6	3	3.6

Strong competitive advantages

- In a year impacted by a prolonged crisis, Asahi India Glass Limited (AIS) adapted fast to ensure the Company could continue to 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.
- 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

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

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.

Focus on multi-channel presence

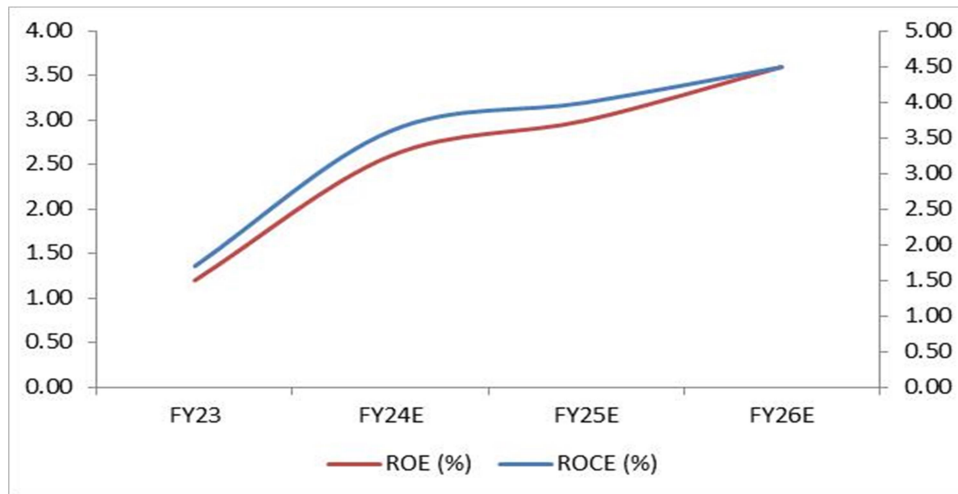
Eureka Forbes focusses on multiple channels to distribute its products. While it has a strong direct channel, it also boasts of a access to 20,000 general trade stores. It also has strong presence in Modern Trade (MT), CSD and e-commerce channels. We believe a multi-channel presence serves Eureka well to target consumers across income levels and different shopping preferences.

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

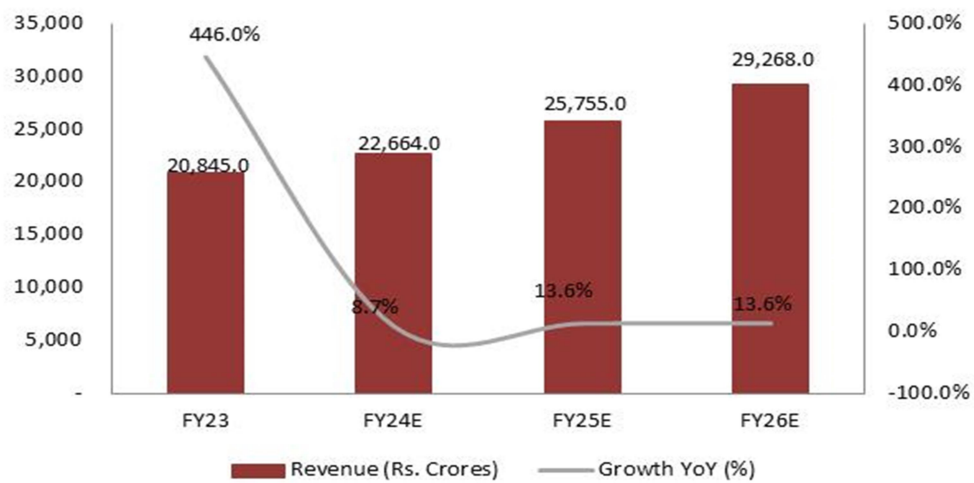
The company is now offering water purifiers on rental-basis (pilot project) without any maintenance cost and installation charges. We believe, this will encourage trials among consumers and also allow some consumers to continue with Eureka Forbes water purifiers. We note, many smaller water purifier 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.

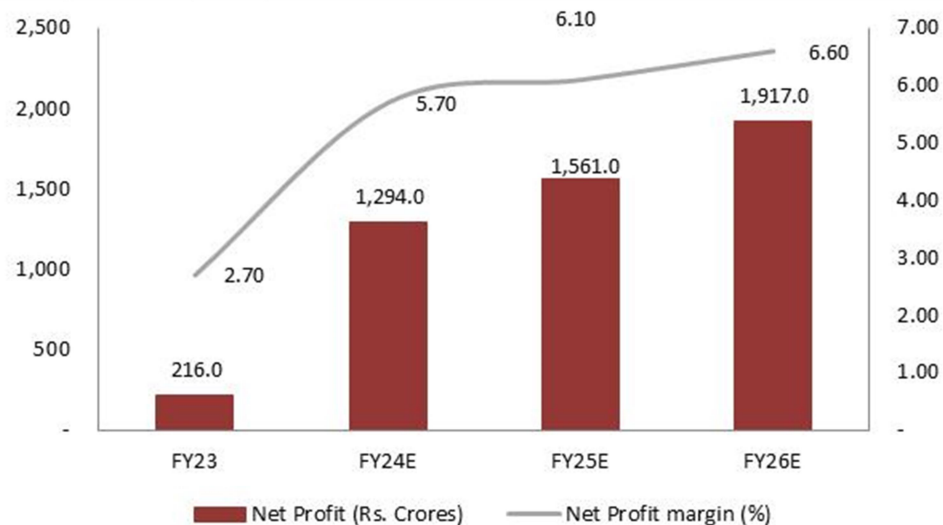
RoCE lower due to intangibles; RoIC > cost of capital



Revenue will experience Strong growth



Net profit will experience a growth trajectory





Outlook and Valuation

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. We have valued the stock at 69x FY25E and arrive at target price of Rs 560.

Eureka forbes Ltd- Company Overview

Aquaguard is the award-winning water purifier brand of Eureka Forbes. The Forbes vacuum cleaners are market leaders of the company and remain as #1 vacuum cleaner brand in 2020-21. Other products under the Eureka Forbes umbrella include Dr. Aeroguard, Forbes Health Conditioner, and Air purifiers. Advent International, a private equity firm popular for turning around companies, acquired stake from previous owners - Shapoorji Pallonji Group. Advent acquired the stake at the enterprise value of ₹ 4,400 Cr in September 2021. The company has appointed experienced and highly skilled senior management to turnaround the company. Its a Professionally managed company governed by an Independent Board. The MD & CEO of the company Mr. Pratik Pota has 30+ yrs experience in various sectors and organisations like Jubilant FoodWorks, PepsiCo, Airtel, HUL etc.



Balance sheet (Consolidated)

(Rs million)	FY23	FY24E	FY25E	FY26E
Liabilities				
Share Capital	1935	1935	1935	1935
Reserves and Surplus	39042	40335	41897	43814
Net worth	40977	42270	43832	45749
Deferred Tax Liability	8,202	8,202	8,202	8,202
Total Loans	2,644	2,644	2,644	2,644
Total Liabilities	51,823	53,116	54,678	56,595
Assets				
Net Block	2942	3274	3226	3138
Capital WIP	25	-	-	-
Goodwill/ Intangibles	51867	51867	51867	51867
Current Assets	4211	6005	8882	12327
Current Liabilities	8484	9292	10559	12000
Net Current Assets	-4273	-3287	-1678	327
Investments	1,261	1,261	1,261	1,261
Total Assets	51,823	53,116	54,678	56,595

Equity Research

Profit & Loss Account (Consolidated)

(Rs million)	FY23	FY24E	FY25E	FY26E
Net Sales	20845	22664	25755	29268
EBITDA	1450	2266	2601	3000
Depreciation	565	392	448	488
EBIT	885	1,874	2,153	2,512
Interest Expense s Bank Exps	203	212	212	212
Other Income	102	74	154	273
Profit Before Tax	785	1737	2095	2573
Income Taxes	220	443	534	656
Adjusted Profit After Tax	565	1294	1561	1917
Extra-ordinary Items	-350			
P/L from Associates				
Other				
Profit for Shareholders	216	1294	1561	1917



Cash Flow Statement (Consolidated)

Y.E March (Rs crore)	FY23	FY24E	FY25E	FY26E
OCF before W/C changes	1299	1686	2009	2405
W/c Changes	322	619	773	878
OCF After W/C Changes	1621	2305	2782	3284
Capital Expenditure	-213	-700	-400	-400
Disposal	80	-	-	-
Investments	-135	-	-	-
Acquisitions	-	-	-	-
Net Cash used in Investing	-268	-700	-400	-400
Changes in Loans	-1346	-	-	-
Changes in Share Capital	-	-	-	-
Net Cash used in Financing	-1346	-	-	-
Opening Cash s Equivalents	178	211	1816	4198
Closing Cash s Equivalents	185	1816	4198	7081
Free Cash Flow	1489	1605	2382	2884

Key Ratios & Valuations (Consolidated)

Y.E March (Rs crore)	FY23	FY24E	FY25E	FY26E
Per share data (Rs.)				
Earnings Per Share	2.9	6.7	8.1	9.9
Book Value per Share	254.1	260.8	268.9	278.8
Margin (%)				
EBITDA Margin	7	10	10.1	10.3
PAT Margin	2.7	5.7	6.1	6.6
Return Ratios (%)				
RoCE	1.7	3.6	4	4.5
RoE	1.2	2.6	3	3.6
Valuation(x)				
Price Earnings	166.9	73	60.5	49.3
Price/Book Value	1.9	1.9	1.8	1.8
EV/EBITDA	66.3	42.4	36.9	32
EV/Sales	4.6	4.2	3.7	3.3



Equity Research

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Between 10% & -5%	Accumulate*	Upside between 10% & 15%
Reduce	Less than -5%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.



Member: BSE, NSE, MCX, MCX-SX, CDSL

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