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India | Equity Research | Company Update

Eureka Forbes

White Goods

A filtered strategy; service income to strengthen RoCE

Eureka has revamped its servicing business strategy and we believe its benefits are surfacing. These include: (1) It has, now, four different servicing plans with options to buy servicing for one, two or three years, instead of just one plan across consumers. (2) Rolled out an App that provides alerts to consumers about servicing. Billing/payment are online, and various checks are in place to reduce pilferage. (3) With digital investments, servicing costs are lower too. Eureka also offers 4% additional discount to consumers opting for requests via its App and (4) We believe, Eureka can invest the savings back into brand-building to drive revenue growth/market share. We stay constructive on Eureka given strong business tailwinds. Maintain **BUY** with a DCF-based revised TP of INR 735 (implied P/E of 73x/62x FY26E/FY27E EPS).

New service plans

We note, Eureka has introduced four servicing plans instead of just the one servicing plan it had across customers and products. Consumers can choose to buy servicing plans for one, two or three years. We believe the new strategy is likely to result in higher number of consumers opting for servicing from Eureka instead of using servicing from other vendors/electricians.

Usage of App allows to track servicing done by the consumers

Eureka’s consumer App allows it to: (1) track the servicing done by consumers; (2) accordingly, offer renewal discounts/other schemes; and (3) intimate consumers regarding the servicing. As the billing and payment is also done online, there is a trail to understand the servicing availed by the consumers. With multiple checks, Eureka has potential to retain the water purifier buyer for servicing too.

Reduction in service cost with App adoption

As Eureka is focussing on App-based servicing, we believe the costs in reminders, call centres and other servicemen may reduce. It should also result in driving efficiency among servicemen. We model, the service cost, as % of net sales, to gradually reduce over FY25–27E as the share of online servicing increases. As Eureka has initiated multiple other legal initiatives to curtail the leakages in servicing, we believe there is potential to reduce the service cost.

Financial Summary

Y/E March March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	21,893	24,722	28,181	31,769
EBITDA	1,986	2,497	3,054	3,427
EBITDA Margin (%)	9.1	10.1	10.8	10.8
Net Profit	1,058	1,491	1,962	2,299
EPS (INR)	5.5	7.7	10.1	11.9
EPS % Chg YoY	87.0	40.9	31.6	17.2
P/E (x)	113.7	80.7	61.3	52.3
EV/EBITDA (x)	60.4	47.1	37.5	32.5
RoCE (%)	2.4	3.4	4.1	4.4
RoE (%)	2.5	3.5	4.4	4.9

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Market Data

Market Cap (INR)	120bn
Market Cap (USD)	1,419mn
Bloomberg Code	EUREKAFO IN
Equity	
Reuters Code	EURK.BO
52-week Range (INR)	644 /397
Free Float (%)	35.0
ADTV-3M (mn) (USD)	3.1

Price Performance (%)	3m	6m	12m
Absolute	23.6	42.9	17.4
Relative to Sensex	24.1	32.9	(0.6)

ESG Score	2023	2024	Change
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.
Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	0.0	0.0
EBITDA	0.0	4.2
EPS	0.0	4.9

Previous Reports

11-11-2024: [Q2FY25 results review](#)
09-10-2024: [Company Update](#)

Increase in brand-building activities

As Eureka will likely be able to reduce the costs in servicing, we believe it should also be able to increase investments in ad-spend and new product launches. This would allow the company to tap additional consumers. While margin expansion may not benefit materially, we model Eureka's market shares are likely to inch up.

Maintain BUY

We remain structurally positive on Eureka and model it to report revenue and PAT CAGRs of 13.2% and 29.5%, respectively, over FY24–27E. We maintain **BUY** with a DCF-based revised TP of INR 735 (earlier: INR 700) with an implied P/E of 73x/62x FY26E/FY27E.

Key risks: Steep increase in competitive pressures; failure of new products; and material inflation in commodity prices.

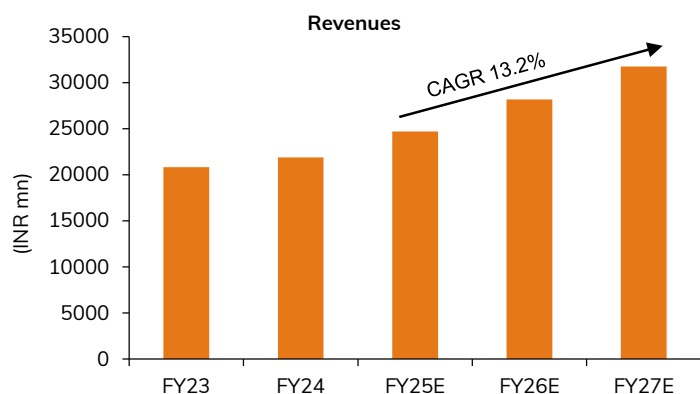
Exhibit 1: Current servicing plans offered by Eureka

Plans	Horizon (Years)	Pricing (INR)	Servicing per annum (nos.)#	Filter change per annum* (nos.)	Electronics product damage cover	RO membrane
Platinum	3	6,899	3	1	100%	Free change annually once
Platinum	2	4,899	3	1	100%	Free change annually once
Platinum	1	2,699	3	1	100%	Free change annually once
Gold	3	5,599	2	1	100%	Free change annually once
Gold	2	3,999	2	1	100%	Free change annually once
Gold	1	2,199	2	1	100%	Free change annually once
Silver	1	1,499	1	1	90% (Need to pay 10% charges)	Changed once annually at 50% discount
Base	1	599	1	0 (But 1 filter available at 25% discount)	No cover	To be purchased by customer (No discount)

Source: Company data, I-Sec research *There is 4% discount if the consumer chooses to register through the APP #Maintenance visits

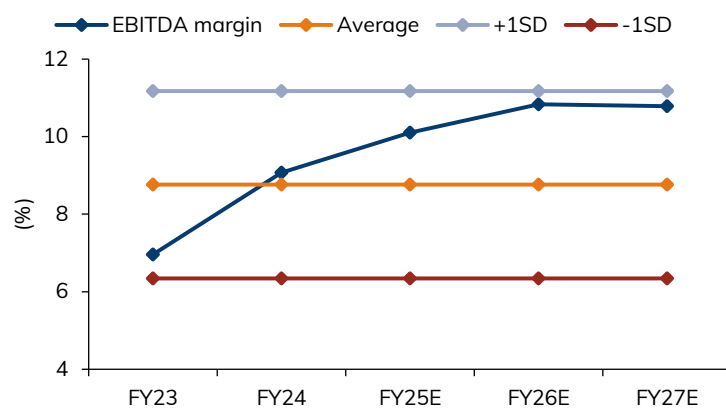
Key indicators – Annual

Exhibit 2: Revenue and revenue growth



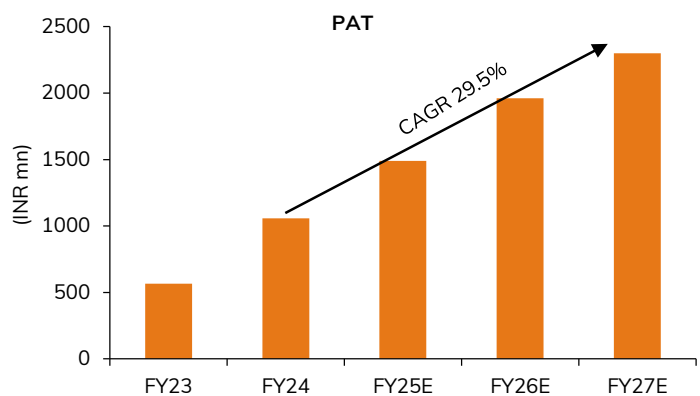
Source: Company data, I-Sec research

Exhibit 3: EBITDA margin



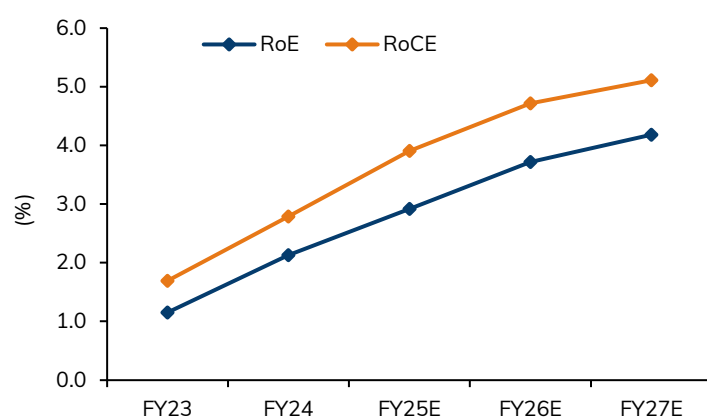
Source: Company data, I-Sec research

Exhibit 4: PAT and PAT growth



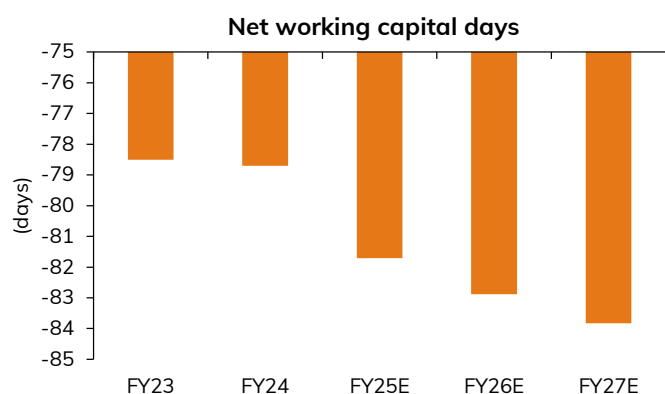
Source: Company data, I-Sec research

Exhibit 5: RoE and RoCE



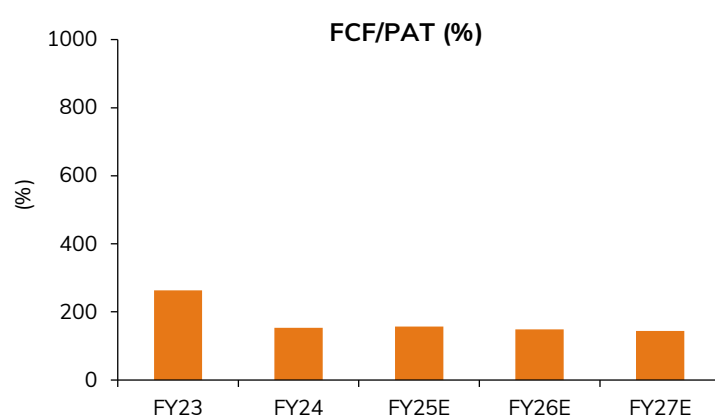
Source: Company data, I-Sec research

Exhibit 6: Net working capital days



Source: Company data, I-Sec research

Exhibit 7: FCF/PAT (%)



Source: Company data, I-Sec research

Valuation and risks

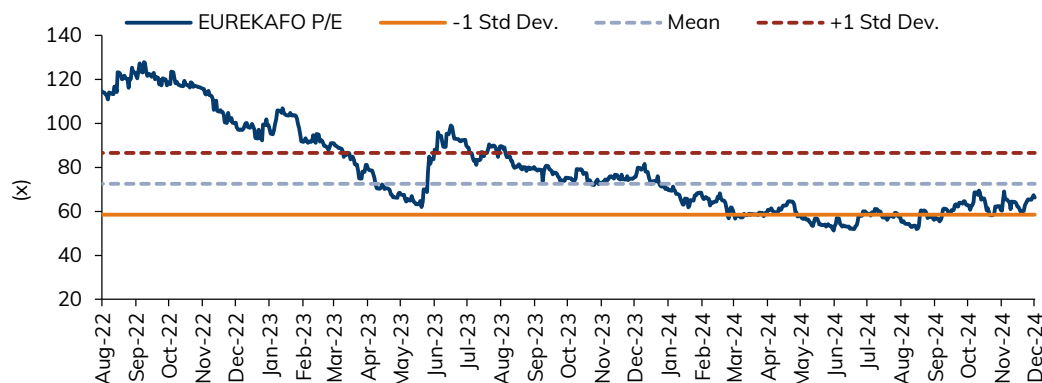
We model Eureka to report revenue and PAT CAGRs of 13.2% and 29.5%, respectively, over FY24–27E. At our DCF-based revised target price of INR 735 (earlier: INR 700), implied P/E works out to 73x/62x FY26E/FY27E EPS. Maintain **BUY**.

Exhibit 8: DCF-based valuation

Particulars	
Cost of Equity (%)	10.9%
Terminal growth rate (%)	5.0%
Discounted interim cash flows (INR mn)	57,562
Discounted terminal value (INR mn)	84,646
Total equity value (INR mn)	1,42,207
Value per share (INR)	735

Source: Company data, I-Sec research

Exhibit 9: Mean PE (x) and standard deviations



Source: I-Sec research, Bloomberg

Risks

Sharp increase in input prices and competitive pressures

Major increase in input prices and/or increase in competitive pressures may 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 10: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	62.6	62.6	62.6
Institutional investors	21.7	19.5	19.2
MFs and others	3.3	2.8	3.1
FIs/Banks	0.1	0.1	0.1
Insurance	1.3	2.2	2.4
FIIIs	17.0	14.4	13.6
Others	15.7	17.9	18.2

Source: Bloomberg

Exhibit 11: Price chart



Source: Bloomberg

Financial Summary

Exhibit 12: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	21,893	24,722	28,181	31,769
Operating Expenses	19,906	22,225	25,127	28,342
EBITDA	1,986	2,497	3,054	3,427
EBITDA Margin (%)	9.1	10.1	10.8	10.8
Depreciation & Amortization	540	435	484	534
EBIT	1,446	2,061	2,570	2,894
Interest expenditure	98	131	131	131
Other Non-operating Income	88	71	195	323
Recurring PBT	1,436	2,001	2,633	3,085
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	378	510	672	787
PAT	1,058	1,491	1,962	2,299
Less: Minority Interest	0	-	-	-
Extraordinaries (Net)	(123)	-	-	-
Net Income (Reported)	935	1,491	1,962	2,299
Net Income (Adjusted)	1,058	1,491	1,962	2,299

Source Company data, I-Sec research

Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	5,524	7,917	11,382	15,260
of which cash & cash eqv.	975	3,315	6,226	9,531
Total Current Liabilities & Provisions	9,269	10,136	11,554	13,025
Net Current Assets	(3,745)	(2,219)	(173)	2,235
Investments	1,116	1,116	1,116	1,116
Net Fixed Assets	2,896	2,872	2,788	2,679
ROU Assets	-	-	-	-
Capital Work-in-Progress	12	-	-	-
Total Intangible Assets	51,734	51,734	51,734	51,734
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	52,012	53,503	55,465	57,764
Liabilities				
Borrowings	1,643	1,643	1,643	1,643
Deferred Tax Liability	8,101	8,101	8,101	8,101
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	1,935	1,935	1,935	1,935
Reserves & Surplus	40,322	41,812	43,774	46,073
Total Net Worth	42,256	43,747	45,709	48,008
Minority Interest	12	12	12	12
Total Liabilities	52,012	53,503	55,465	57,764

Source Company data, I-Sec research

Exhibit 14: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	5,394	5,536	5,534	6,731
% growth (YOY)	13.9	8.8	9.6	13.8
EBITDA	427	533	563	731
Margin %	7.9	9.6	10.2	10.9
Other Income	31	19	23	34
Extraordinaries	(4)	(159)	(5)	24
Adjusted Net Profit	230	315	321	447

Source Company data, I-Sec research

Exhibit 15: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	1,870	2,740	3,311	3,729
Working Capital Changes	(418)	814	865	897
Capital Commitments	(284)	(400)	(400)	(425)
Free Cashflow	1,586	2,340	2,911	3,304
Other investing cashflow	(53)	-	-	-
Cashflow from Investing Activities	(337)	(400)	(400)	(425)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(1,105)	-	-	-
Dividend paid	-	-	-	-
Others	-	-	-	-
Cash flow from Financing Activities	(1,105)	-	-	-
Chg. in Cash & Bank balance	428	2,340	2,911	3,304
Closing cash & balance	613	3,315	6,226	9,531

Source Company data, I-Sec research

Exhibit 16: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	5.5	7.7	10.1	11.9
Adjusted EPS (Diluted)	5.5	7.7	10.1	11.9
Cash EPS	8.3	10.0	12.6	14.6
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	218.4	226.1	236.2	248.1
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	5.0	12.9	14.0	12.7
EBITDA	37.0	25.7	22.3	12.2
EPS (INR)	87.0	40.9	31.6	17.2
Valuation Ratios (x)				
P/E	113.7	80.7	61.3	52.3
P/CEPS	75.2	62.4	49.2	42.5
P/BV	2.8	2.7	2.6	2.5
EV / EBITDA	60.4	47.1	37.5	32.5
P / Sales	5.5	4.9	4.3	3.8
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	59.4	57.8	58.0	58.3
EBITDA Margins (%)	9.1	10.1	10.8	10.8
Effective Tax Rate (%)	26.3	25.5	25.5	25.5
Net Profit Margins (%)	4.8	6.0	7.0	7.2
NWC / Total Assets (%)	(9.1)	(10.3)	(11.5)	(12.6)
Net Debt / Equity (x)	0.0	(0.1)	(0.1)	(0.2)
Net Debt / EBITDA (x)	(0.2)	(1.1)	(1.9)	(2.6)
Profitability Ratios				
RoCE (%)	2.4	3.4	4.1	4.4
RoE (%)	2.5	3.5	4.4	4.9
RoIC (%)	2.5	3.7	4.7	5.5
Fixed Asset Turnover (x)	6.6	6.8	7.0	7.1
Inventory Turnover Days	43	39	39	39
Receivables Days	23	23	23	23
Payables Days	154	155	156	155

Source Company data, I-Sec research

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