

09 August 2024

India | Equity Research | Q1FY25 results review

Eureka Forbes

White Goods

Ticking the right boxes; structural growth in continuing businesses may sustain in rest of FY25

Takeaways: (1) Eureka Forbes' (Eureka) volume growth continued for fourth consecutive quarter led by slight product mix shift towards economy segment (in our view). (2) Continuing businesses sustained healthy growth traction (+10.8% YoY) on stable growth in core businesses and high growth in relatively newer sub-segments. (3) EBITDA margin expanded 17bps to 10.2% (near historical high of 10.4%) on operating leverage and cost-saving initiatives. (4) Strong cash generation continued as Eureka has net cash position of INR 600mn (vs net debt of INR 320mn in Q1FY24). While growth was largely driven by volume over the past three quarters, we reckon it may get driven by premiumisation/differentiated products in H2FY25.

We note Eureka is progressing well across parameters of – growth, margin and cash generation. We remain constructive on Eureka following strong business tailwinds. Maintain **BUY** with DCF-based revised TP of INR 590 (implied P/E of 65x on FY26E EPS).

Q1FY25 result

Eureka's revenue, EBITDA and PAT were up 9.6%, 11.5% and 26.3%, respectively, YoY. Healthy double-digit growth (+10.8% YoY) sustained in continuing business for third consecutive quarter. Gross margin contracted 65bps YoY due to higher commodity costs and inferior product mix, in our view. However, EBITDA margin expanded 17bps YoY led by operating leverage and cost efficiencies. Profitability was lifted by higher revenue and lower finance cost (-51.6% YoY).

Strong growth traction in continuing businesses

Continuing businesses grew 10.8% YoY in Q1. The growth in continuing businesses seems structural considering its consistency over the past three consecutive quarters. Core water purifier and vacuum cleaner segments have sustained the growth traction in Q1. We model buoyant growth trajectory in continuing businesses to continue in rest of FY25 led by thrust over premiumisation and differentiated product launches.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	20,845	21,893	24,219	27,126
EBITDA	1,450	1,986	2,446	2,780
EBITDA Margin (%)	7.0	9.1	10.1	10.3
Net Profit	566	1,058	1,453	1,752
EPS (INR)	2.9	5.5	7.5	9.1
EPS % Chg YoY	2,076.8	87.0	37.4	20.5
P/E (x)	160.1	85.6	62.3	51.7
EV/EBITDA (x)	63.3	45.4	36.0	30.7
RoCE (%)	1.4	2.4	3.3	3.7
RoE (%)	1.4	2.5	3.4	3.9

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Market Data

Market Cap (INR)	91bn
Market Cap (USD)	1,079mn
Bloomberg Code	EUREKAFO IN Equity
Reuters Code	EURK.BO
52-week Range (INR)	588 /397
Free Float (%)	35.0
ADTV-3M (mn) (USD)	2.7

Price Performance (%)	3m	6m	12m
Absolute	3.1	(4.9)	(16.0)
Relative to Sensex	(4.3)	(15.3)	(35.8)

Earnings Revisions (%)	FY25E	FY26E
Revenue	(1.2)	(1.2)
EBITDA	(1.2)	(1.2)
EPS	(1.5)	(1.6)

Previous Reports

13-06-2024: [Company Update](#)

30-05-2024: [Q4FY24 results review](#)

Thrust over economy segment may have led to volume growth

Benefits of higher investments (made in H1FY24) in economy segments have continued further, from H2FY24, in Q1 as Eureka registered healthy volume growth. We expect volume growth to continue in H1FY25. A blend of volume-value growth may drive revenue thereafter as the benefits of investments over premiumisation may start reflecting.

Premiumisation and differentiated/innovative products may drive growth

While volume growth started stabilising in H2FY24 (led by investments in economy segment), we note Eureka had prudently shifted its investment strategy towards development of differentiated innovative and premium products. The company had launched multiple innovative products across its premium portfolio in Q1. We expect the trend to continue in coming quarters and it may drive the growth in FY25.

Improving balance sheet status

Healthy cash generation has continued for third consecutive quarter. Eureka's balance sheet status continues to improve as it has moved from net debt position of INR 320mn in Q1FY24 to net cash position of INR 600mn.

Maintain BUY

We remain structurally positive on Eureka and model it to report revenue and PAT CAGRs of 11.3% and 28.7%, respectively, over FY24-26E. We maintain **BUY** with DCF-based revised TP of INR 590 (earlier: INR 600) with an implied P/E of 65x FY26E. Key risks: Steep increase in competitive pressures and higher commodity prices.

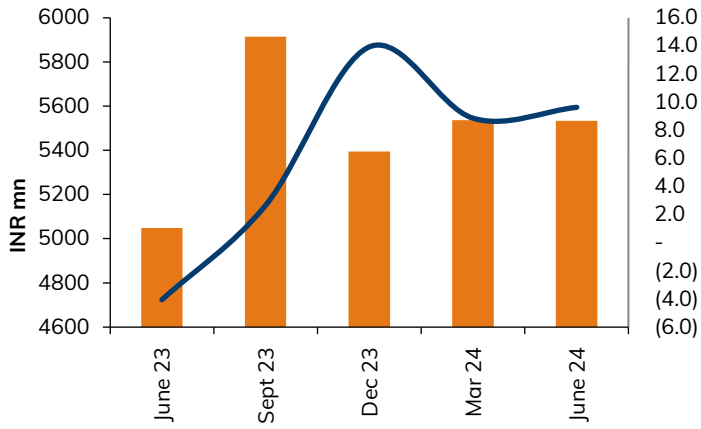
Exhibit 1: Q1FY25 consolidated financial performance

Y/e March (INR mn)	Q1FY25	Q1FY24	YoY % chg.	Q4FY24	QoQ % chg.
Revenue	5,534	5,048	9.6	5,536	(0.0)
Expenditure					
Raw materials	2,158	1,936	11.5	2,255	(4.3)
% of revenue	39.0	38.3		40.7	
Employee cost	852	759	12.2	849	0.4
% of revenue	15.4	15.0		15.3	
Other expenditure	1,961	1,848	6.1	1,899	3.2
% of revenue	35.4	36.6		34.3	
Total expenditure	4,971	4,543	9.4	5,003	(0.6)
EBITDA	563	505	11.5	533	5.6
EBITDA margin	10.2	10.0		9.6	
Other income	23	20	16.0	19	24.0
PBDIT	586	525	11.6	552	6.3
Depreciation	138	134	2.8	140	(1.6)
PBIT	449	391	14.7	412	8.9
Interest	17	35	(51.6)	16	5.3
PBT	432	357	21.1	396	9.1
Prov. for tax	110	102	8.1	81	36.9
% of PBT	25.5	28.6		20.4	
PAT before MI/Share of associate	322	255	26.3	315	2.0
Minority Interest/Share of associate	0	0	277.3	(0)	-
Adjusted PAT	321	255	26.3	315	1.9
Extra ordinary items	(5)	(14)	-	(109)	-
Reported PAT	316	241	31.2	206	53.4

Source: Company data, I-Sec research

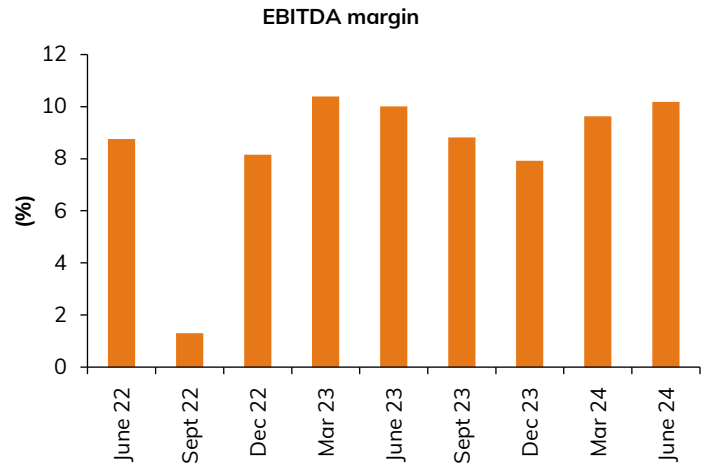
Key performance highlights

Exhibit 2: Revenue trend



Source: Company data, I-Sec research

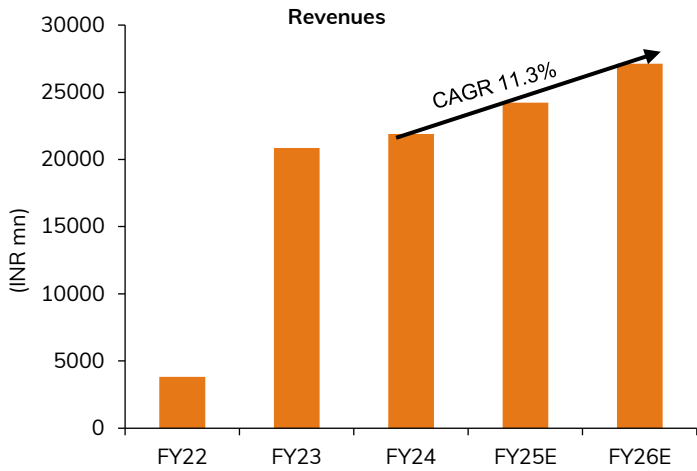
Exhibit 3: EBITDA margin



Source: Company data, I-Sec research

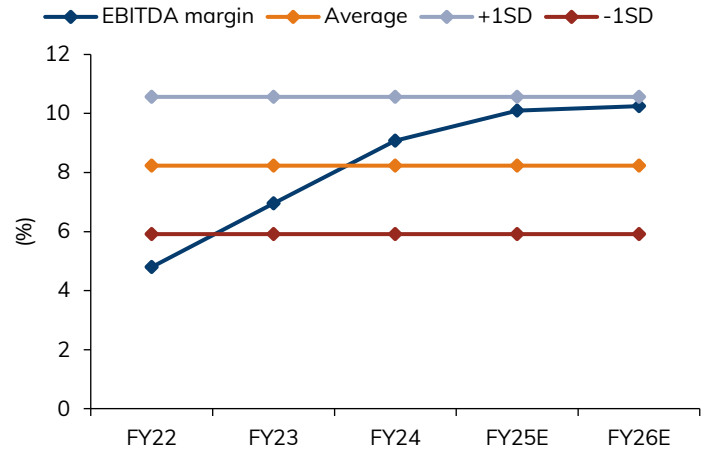
Key indicators – Annual

Exhibit 4: Revenue and revenue growth



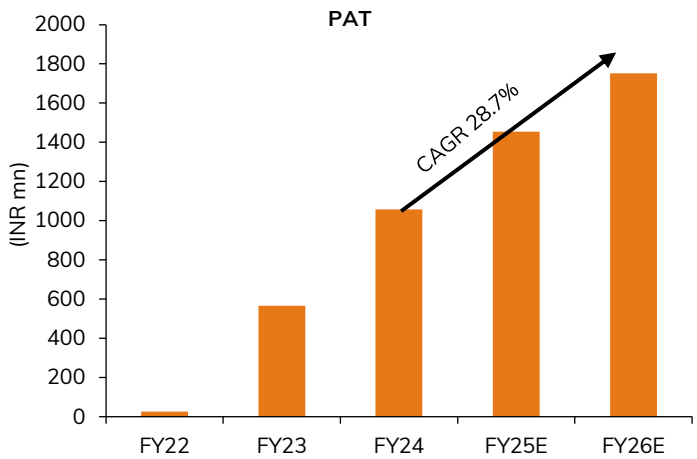
Source: Company data, I-Sec research

Exhibit 5: EBITDA margin



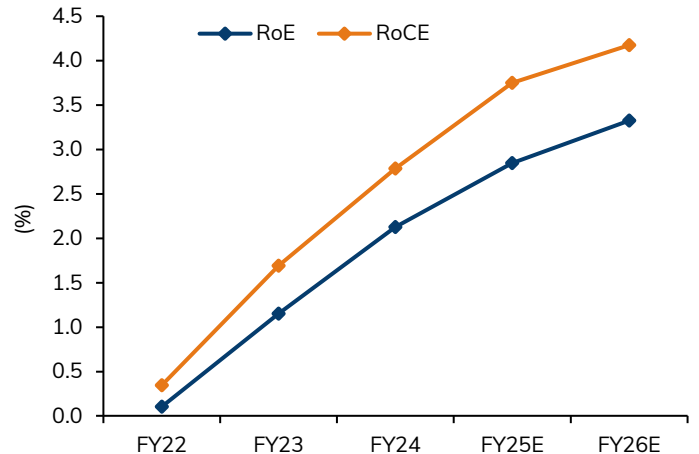
Source: Company data, I-Sec research

Exhibit 6: PAT and PAT growth



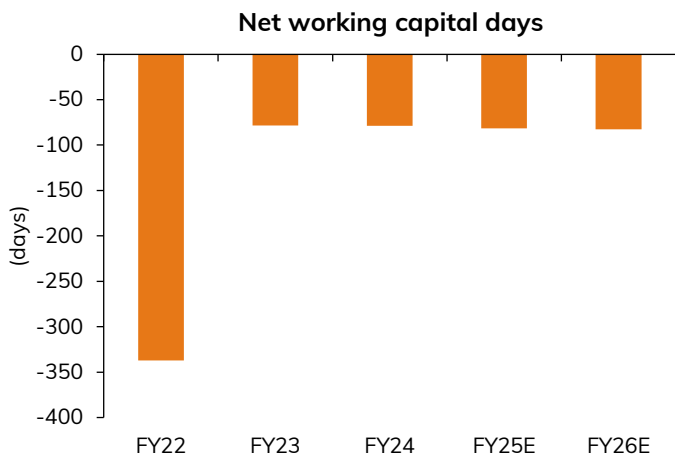
Source: Company data, I-Sec research

Exhibit 7: RoE and RoCE



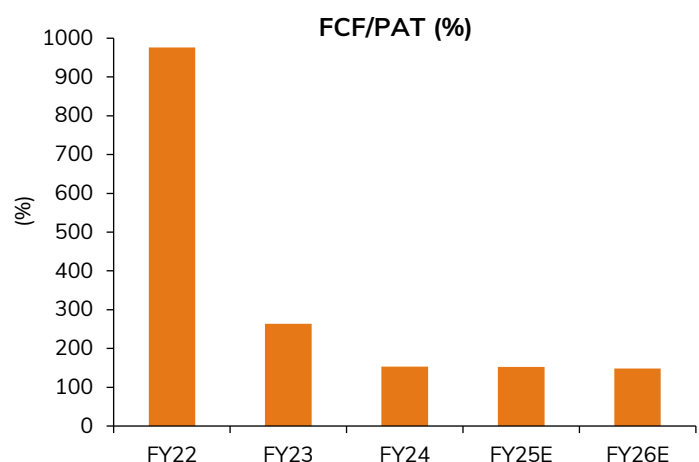
Source: Company data, I-Sec research

Exhibit 8: Net working capital days



Source: Company data, I-Sec research

Exhibit 9: FCF/PAT (%)



Source: Company data, I-Sec research

Valuation and risks

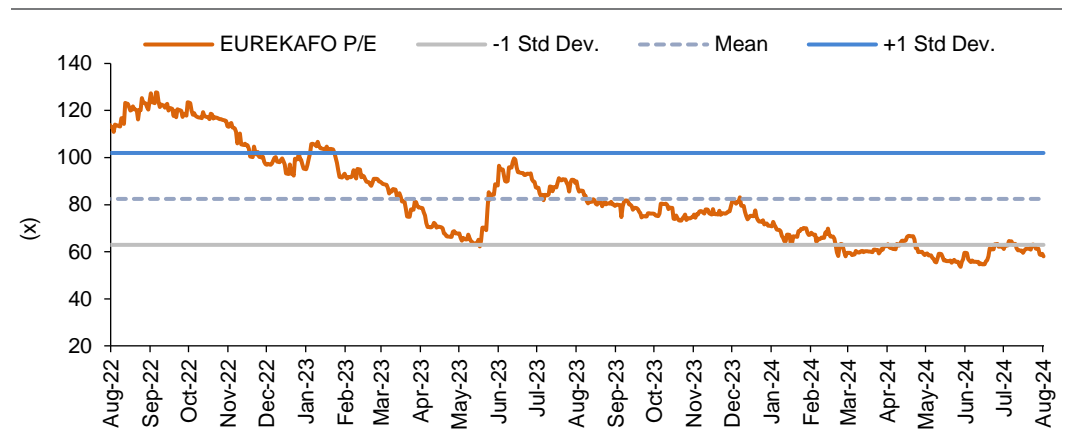
We model Eureka Forbes to report revenue and PAT CAGRs of 11.3% and 28.7% over FY24-26E. At our DCF-based revised target price of INR 590 (earlier: INR 600), implied P/E works out to 65x FY26E EPS. Maintain **BUY**.

Exhibit 10: DCF-based valuation

Particulars	
Cost of Equity (%)	10.8%
Terminal growth rate (%)	5.0%
Discounted interim cash flows (INR mn)	47,679
Discounted terminal value (INR mn)	66,498
Total equity value (INR mn)	1,14,176
Value per share (INR)	590

Source: Company data, I-Sec research

Exhibit 11: 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 12: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	72.6	62.6	62.6
Institutional investors	14.8	21.7	19.5
MFs and others	3.3	3.3	2.8
FIs/Banks	0.1	0.1	0.1
Insurance	0.6	1.3	2.2
FIIIs	10.8	17.0	14.4
Others	12.6	15.7	17.9

Source: Bloomberg

Exhibit 13: Price chart



Source: Bloomberg

Financial Summary

Exhibit 14: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	20,845	21,893	24,219	27,126
Operating Expenses	19,395	19,906	21,773	24,345
EBITDA	1,450	1,986	2,446	2,780
EBITDA Margin (%)	7.0	9.1	10.1	10.3
Depreciation & Amortization	565	540	468	513
EBIT	886	1,446	1,978	2,267
Interest expenditure	203	98	131	131
Other Non-operating Income	102	88	105	215
Recurring PBT	785	1,436	1,951	2,351
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	220	378	498	600
PAT	565	1,058	1,453	1,752
Less: Minority Interest	(1)	0	-	-
Extraordinaries (Net)	(350)	(123)	-	-
Net Income (Reported)	216	935	1,453	1,752
Net Income (Adjusted)	566	1,058	1,453	1,752

Source Company data, I-Sec research

Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	4,211	5,524	7,707	10,763
of which cash & cash eqv.	211	975	3,185	5,776
Total Current Liabilities & Provisions	8,484	9,269	9,930	11,121
Net Current Assets	(4,273)	(3,745)	(2,223)	(359)
Investments	1,261	1,116	1,116	1,116
Net Fixed Assets	2,942	2,896	2,839	2,727
ROU Assets	-	-	-	-
Capital Work-in-Progress	25	12	-	-
Total Intangible Assets	51,867	51,734	51,734	51,734
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	51,822	52,012	53,466	55,218
Liabilities				
Borrowings	2,644	1,643	1,643	1,643
Deferred Tax Liability	8,190	8,101	8,101	8,101
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	1,935	1,935	1,935	1,935
Reserves & Surplus	39,042	40,322	41,775	43,527
Total Net Worth	40,976	42,256	43,710	45,461
Minority Interest	12	12	12	12
Total Liabilities	51,822	52,012	53,466	55,218

Source Company data, I-Sec research

Exhibit 16: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	5,914	5,394	5,536	5,534
% growth (YoY)	2.6	13.9	8.8	9.6
EBITDA	521	427	533	563
Margin %	8.8	7.9	9.6	10.2
Other Income	18	31	19	23
Extraordinaries	4	(4)	(159)	(5)
Adjusted Net Profit	258	230	315	321

Source Company data, I-Sec research

Exhibit 17: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	1,621	1,870	2,610	2,991
Working Capital Changes	322	(418)	688	727
Capital Commitments	(213)	(284)	(400)	(400)
Free Cashflow	1,409	1,586	2,210	2,591
Other investing cashflow	(55)	(53)	-	-
Cashflow from Investing Activities	(268)	(337)	(400)	(400)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(1,346)	(1,105)	-	-
Dividend paid	-	-	-	-
Others	-	-	-	-
Cash flow from Financing Activities	(1,346)	(1,105)	-	-
Chg. in Cash & Bank balance	8	428	2,210	2,591
Closing cash & balance	185	613	3,185	5,776

Source Company data, I-Sec research

Exhibit 18: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	2.9	5.5	7.5	9.1
Adjusted EPS (Diluted)	2.9	5.5	7.5	9.1
Cash EPS	5.8	8.3	9.9	11.7
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	211.8	218.4	225.9	235.0
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	446.0	5.0	10.6	12.0
EBITDA	690.8	37.0	23.1	13.7
EPS (INR)	2,076.8	87.0	37.4	20.5
Valuation Ratios (x)				
P/E	160.1	85.6	62.3	51.7
P/CEPS	80.2	56.7	47.1	40.0
P/BV	2.2	2.1	2.1	2.0
EV / EBITDA	63.3	45.4	36.0	30.7
P / Sales	4.3	4.1	3.7	3.3
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	60.0	59.4	57.7	57.7
EBITDA Margins (%)	7.0	9.1	10.1	10.3
Effective Tax Rate (%)	28.1	26.3	25.5	25.5
Net Profit Margins (%)	2.7	4.8	6.0	6.5
NWC / Total Assets (%)	(8.7)	(9.1)	(10.1)	(11.1)
Net Debt / Equity (x)	0.0	0.0	(0.1)	(0.1)
Net Debt / EBITDA (x)	0.8	(0.2)	(1.1)	(1.9)
Profitability Ratios				
RoCE (%)	1.4	2.4	3.3	3.7
RoE (%)	1.4	2.5	3.4	3.9
RoC (%)	1.5	2.5	3.6	4.2
Fixed Asset Turnover (x)	6.4	5.8	5.7	5.8
Inventory Turnover Days	65	43	38	39
Receivables Days	37	23	23	23
Payables Days	246	154	153	154

Source Company data, I-Sec research

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