Eureka Forbes Limited (formerly Forbes Enviro Solutions Limited)
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EUREKA FORBES
Friends For Life

November 23, 2023 EFL/BSE/2023-24/77

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai 400001

Scrip Code: 543482
Scrip ID: EUREKAFORBE

Sub: Intimation of Transcript of Earnings Conference Call held on Friday, November 17, 2023

Dear Sir/Madam,

Pursuant to Regulations 30(6) read with Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of the Earnings Call held with Analysts/Investors Friday, November 17, 2023.

The transcript of the Earnings Call is available on the website of the Company at www.eurekaforbes.com.

Request you to kindly take the above information on record.

Thanking you,

For Eureka Forbes Limited
(formerly Forbes Enviro Solutions Limited)

PRAGYA KAUL Digitally signed by PRAGYA KAUL Date: 2023.11.23 10:12:02 +05'30'

Pragya Kaul
Company Secretary & Compliance Officer

Encl: As above

"Eureka Forbes Limited's
Q2 FY'24 Earnings Conference Call"

November 17, 2023

MANAGEMENT: **MR. PRATIK POTA – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, EUREKA FORBES LIMITED**
MR. GAURAV KHANDELWAL – CHIEF FINANCIAL OFFICER, EUREKA FORBES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Eureka Forbes Limited's Q2 FY24 Earnings Conference Call. We have Mr. Pratik Pota – Managing Director and CEO, and Mr. Gaurav Khandelwal – CFO, Eureka Forbes with us.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

Before I hand it over to Mr. Pratik Pota, please note the disclaimer. Certain statements made by the management in today's call may be forward-looking statements. These forward-looking statements reflect management's best judgment and analysis as of today. The actual results may differ materially from the current expectations based on a number of factors affecting the business.

I now hand the conference over to Mr. Pratik Pota. Thank you and over to you sir.

Pratik Pota: Good morning and I welcome you all to the Q2 Earnings Call of Eureka Forbes Limited. I wish you all a Very Happy Diwali and hope that you had a good break.

Q2 was in many ways a landmark quarter for EFL. With all three critical markers -- margins, net debt and growth -- showing healthy improvement, our net revenues stood at Rs.592.3 crores, a growth of 3% over last year. Without the impact of discontinued businesses, our Q2 revenues grew by 4.8%. This performance was driven on the back of volume growth both in electric water purifiers and in vacuum cleaners and in the face of a continued soft demand environment.

The impact of operating leverage was visible in our margins, which grew for the fourth successive quarter with adjusted EBITDA margin expanding to 10.5% compared to flat in Q2 last year and 9.8% in Q1 of FY24.

We also reached an important milestone in our transformation journey by turning net debt-free. As against a net debt of Rs.199 crores in September '22, we ended last quarter with a net surplus of Rs.9 crores.

Stepping back, we believe that the Q2 performance offers us evidence and underlines the conviction that Project Udaan, our strategy for transformation and growth that we spoke about earlier in the year is beginning to deliver real impact on the ground.

Our transformation-linked interventions in the areas of driving growth through entry level products, category creating communication and go-to-market infrastructure are beginning to get reflected in our growth numbers.

Our growth was broad-based. We saw the second successive quarter of volume growth in both water and in vacuum cleaners. Within vacuum cleaners, our premium portfolio of robotics especially saw strong growth.

Q2 also had two important revenue-related interventions. The first one was the launch of tiered AMC, aimed at improving service affordability and getting non-users of service into the fold. We understood that an AMC at a price point of Rs.4,500 to Rs.5,000 was an entry barrier and therefore reworked our AMC offerings into different tiers for different customer segments and that will start from Rs.699 onwards.

The second was the launch of a new Water Purifier, called the Slim UV Bar. It is an exciting innovation which marries form and technology, and as a first step in reclaiming our role of being innovators and pioneer.

Profitability improvement was driven by operating leverage. Driving efficiencies is a key priority in unlocking value and generating headroom for growth investments and we will stay focused on that.

Looking ahead, we will strive to build on the Q2 momentum and drive further growth and innovations and enhance customer experience, as also continue on our digitization journey.

Summing up, our Q2 numbers reflect a clear step up in growth along with continuing improvements in margins and debt. In the quarters ahead, we expect to see the impact of innovations of customer service initiatives and of digital interventions to play out which will lead to a further improvement in business trajectory and help us along towards the goal of transforming Eureka Forbes into a D2C health and hygiene powerhouse.

On that note, I will now hand you over to Gaurav Khandelwal, our CFO, who will provide more Details on the Financial Performance. Over to you, Gaurav.

Gaurav Khandelwal: Thank you, Pratik. Happy Diwali, everyone, and thank you for joining us.

In the backdrop of a continuing soft demand environment, our revenue at Rs.592.3 crores grew by 3% on a year-on-year basis. Adjusted for discontinued businesses, our revenues grew 4.8%, the highest growth seen in the last five quarters. This represents a continuing improvement in our growth trajectory over previous quarters. Given the nature of this category where today's product volume is tomorrow's service revenue, continuing volume growth for the second successive quarter in both water purifiers and VCs bodes well for the future.

Our Q2 gross margins were at 57.4% versus 58.5% in the previous year and were impacted by product and channel mix. We expect gross margins to remain range-bound around these levels and do not expect a structural shift in the gross margin table of the business.

Our expenses as a percentage to revenue excluding ESOP charges were lower by 1,150 basis points versus previous year and 370 basis points sequentially.

Our focus on cost program will continue to drive further efficiencies. Our non-cash ESOP charges at Rs.10.7 crores reflects the full quarter impact of ESOP charges, and we expect ESOP charges to remain at these levels in the coming quarters.

This quarter witnessed an important milestone in our financial journey. As against net debt of Rs.199 crores in end September '22 and the peak of Rs.216 crores in June '22, we exited the quarter with a net surplus of Rs.9 crores. Our improved profitability combined with improvements in working capital over the last one year have been the key sources of this improvement. The impact of this is visible in our finance cost, which reduced year-on-year by 49% from INR5.7 crores to INR2.9 crores in Q2.

Aided by operating leverage and lower finance cost, we witnessed year-on-year and quarter-on-quarter improvements in our adjusted EBITDA, in PBT and PAT. Adjusted EBITDA margins expanded for the fourth successive quarter to 10.5% and pre-adjusted PBT margins crossed 8% for the first time to end at 8.1%.

To summarize, the trends on both top line and bottom line show an improving trajectory. We continue to remain focused on executing the transformation agenda under Project Udaan and intend to build on the improved trajectory and make steady progress on other transformation fronts.

On that note, I would now like to open the floor for Q&A.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Vimal Gohil from Alchemy Capital Management Private Limited. Please go ahead.

Vimal Gohil: While as you highlighted 4% odd growth on YoY terms, it is clearly an improvement. So, should we look at this improvement as a reflection of demand bottoming out and improvement of growth thereof or should we look at it as a clear result of our internal interventions. Secondly, on growth versus margins, now as you highlighted there won't be a meaningful shift in the gross margin profile of the company. So, in terms of EBITDA margin, should we say that we are probably looking at the peak EBITDA margins from these levels, how should we look at the margins as well when you look at acceleration of growth?

Pratik Pota: Thank you, Vimal, for that question. I think our performance in Q2 and the growth that we delivered of 4.8% on continuing business came like I said on the back of strong volume growth. This volume was an outcome of all the work that we've done as part of Project Udaan of driving category penetration and category growth through value SKU pricing, through category creating communication, our distribution expansion efforts, as also the work that we've done across other price points, both mid-price and premium. And that work that we've done reflected not just in the growth that we talked about, but also in terms of market share gain. Both in water purifiers and in vacuum cleaners, we were encouraged to see market share gain both sequentially and year-on-year. That said, to your question about category momentum, we don't quite see the categories being in strong momentum yet. They likely have bottomed out, but we don't see the strong tailwinds to the category. Our numbers were more a reflection of our own interventions and the fact that our strategy of Project Udaan is beginning to land and beginning to lead to meaningful growth outcomes. On your second question about growth margins, Gaurav, do you want to chip in here?

Gaurav Khandelwal: I think it's two or three important points to call out. I think from our perspective, the way we see margins is from a lens that there are two book-ends; one is what you would typically see in durable companies where the margin profile is maybe 8% to 11% and at the other end of the spectrum margins in the water purifier space. Now, keeping that in mind, we expect our margins to be somewhere in the middle, that is what we would be aiming for because from our perspective, a very important thing that we've set out for is to ensure that we get both growth and margins. We would not want to be in a situation where we end up with high margins but not adequate growth. Keeping that in mind, we don't expect our current margins to be the peak and also when you married with the fact that we also have a service business, that also gives us additional tailwinds. So, we don't see these current levels to be the peak margin for the business. Obviously, from our perspective, we are looking at structural improvements and to have margins play out over the longer period of time and that is what our approach is going to be.

Vimal Gohil: Gaurav, just one more thing I wanted to clarify was on ESOP cost. You mentioned that Rs.10 crores per quarter, so about Rs.40 crores of ESOP cost for the full year, right, am I reading that right?

Gaurav Khandelwal: That's right. The only call out I would have is that typically in ESOP accounting, the initial years have a higher charge and then it starts tapering off. So, it will not be a uniform Rs.10 crores every quarter, it will start tapering off, but for the foreseeable few quarters you can assume this to be the benchmark.

Vimal Gohil: When do you see this tapering off? By the end of FY25 maybe or '26?

Gaurav Khandelwal: Look, this is done keeping the current accounting models which are there for ESOP accounting. So, it factors in various scenarios. We kept all those considerations in mind, and it will play out over a period beyond FY25.

Moderator: We'll take the next question from the line of Abhijit Akella from Kotak Securities. Please go ahead.

Abhijit Akella: The first one I had was with regard to the revenues. So fairly a sharp jump on a sequential basis as well. Just sort of wondering if there's a seasonality aspect to the business that we need to understand, and so therefore when we model out the second half of this year, is this a good level to trend off or is there a seasonal dip in the second half of the year? Also, just to clarify that gap between reported revenues and revenues from continuing business has narrowed quite sharply this quarter. Does that mean we are sort of approaching the anniversary date of the discontinuation of those old businesses, how should we think about that?

Pratik Pota: Abhijit, going back to your question, I don't know how much was audible, but I was responding by saying that there's been a strong growth sequentially of 17%plus and of course the growth of almost 5% year-on-year on a continuing business. Q2 tends to be the strongest quarter sequentially. Some amount of an improvement what you saw as growth sequentially reflects that, but notwithstanding that, the sequential improvement was higher than what we have seen historically in the previous years, which was a reflection of our growth interventions beginning to bear fruit. On the second part of your question about the continuing business and the gap is between that and our overall reported revenue, Gaurav, you may come in please.

Gaurav Khandelwal: I think just to first layout what really constitutes a discontinued operation. So, this is largely previous business lines like Security division, Coronaguard, Cleaning Services business, etc., Those are the ones which we have exited over the course of last one year. We do expect this impact to be there for the next three, four quarters. The reason for that being that while we've exited these, if there are any residual customer orders which come in because the nature of this business is such that certain customers may come back asking for replacements, etc., So whatever is the organic liquidation that happens or if there are any customer requests which come in proactively, that is something we entertain. It also helps in kind of liquidating whatever inventory is there in releasing cash. So, to that extent, there will be some residual revenue which will keep coming. But depending on the quarter, it will be somewhere in the range of 1% to 2% and not more.

Abhijit Akella: The second question I just had was with regard to a couple of the newer initiatives that you've been working on. First, on the digital side maybe in terms of the app development, etc., and improving the user experience, so what sort of initial feedback you have on these initiatives and whether it's already been rolled out on a wide basis across the entire country? And the second thing is also a little bit about the rental model that I believe is under pilot study in a couple of the southern cities. So, what sort of initial response you're seeing there and any early learnings that you've picked up?

Pratik Pota: On your first question on digital, our intervention on digital and our digital strategy is aimed at across multiple areas. The first one is to improve the customer experience to provide our customers convenience, the access, the seamless service that they expect. So, that's one big area of work. And towards that we have already rolled out a number of initiatives by which customers can schedule their service appointments and pick and choose even a technician of their choice.

That's one thing that has already happened. The second thing that has happened is that to enable a much better service experience for our customers, we've also onboarded all our service technicians nationally onto one central digital platform. And we will now be moving to allocate call centrally based on proximity, based on prior experience, based on skill levels of technicians, nature of the complaint, etc., So, we allocate the complaints intelligently and algorithmically to technicians very soon. Happy to report that our early interventions are leading to meaningful improvements in customer satisfaction levels as reflected in a significant improvement in our net promoter score, which is also showing up in our improvement in our turnaround time zone service. The other area that we are working on is to also improve our product commerce experience and that work is WIP and you will see that play out on digital platforms over the next few periods. That was on your first question. Also, just to add to that, sorry, before I come to your second question, what we've also done to enable our digital play is to build organic capabilities in the organization. We've built a small team which is looking at product management, engineering, UI, UX, we also got a small team which looks at data science and analytics. So, all of these things put together will help us improve our customer experience and the quality of our digital assets. On your second question on the rental model, going back to the strategic logic of rental and why we are piloting it, we're aware that our category has a very low penetration, almost a universal need, but a very low penetration. And one big barrier to category adoption has been the high cost of ownership. We believe that our rental model is one way of addressing this barrier amongst others. And towards that, we've begun piloting our rental model down south in Chennai. The rental model and its success requires very, very strong logistics capabilities, making sure both the forward and the reverse logistics are well-tuned, no.1. No.2, the fact that the customer experience of installation or being able to renew and upgrade on rentals, was so smooth and seamless. And that's the work we're doing right now. Our initial response and feedback in Chennai has been encouraging, but we still intend to finetune and debug the model before we scale up. But rental will be an important part of our play as we go forward along with our initiatives that we've already taken on making products more affordable per se. I hope that addresses your questions.

Moderator: We'll take the next question from the line of Devika Sethi from Ratnabali Investment Private Limited. Please go ahead.

Devika Sethi: Sir, I have two-part questions. One would be, we have been talking about the potential that lies in capturing the service market, especially among our current customers themselves. I assume that we have successfully removed a great portion of the spurious market and unorganized distributors of spare parts and AMC services, and we have even made our services affordable through our new tiered AMC plan. So, what kind of growth are we expecting in the services segment through this new model? This new model will help us gain market share penetration and revenue in this segment, but wouldn't this affect our service margin? And has any other brand come up with this concept before?

Pratik Pota: Thank you for that question. Let me go back and recap the rationale for doing segmented AMC. You're aware that we have an installed base of more than eight million customers. Only a small proportion of whom are part of our organized service offering. One barrier in expanding the size of our own service offer is the fact that there is a large and a parallel grey market which exists, no.1. No.2, customers also are very, very sensitive about pricing, especially if they have a lower priced economy products that they've purchased in the first place. So, our launch of the tiered AMC and the segmented AMC addresses this barrier and looking to make our service a lot more affordable and a lot more accessible. The initial feedback that we've got both in the pilot markets and after scale up has been encouraging. It allows customers with differing levels of service needs to tap into the different segmented offers and go for one which meets their requirements. We expect that as tiered AMC scales up, our service revenues will expand. We expect to get a lot more of our installed base into our own service offering, and we are very optimistic about how this will play out. In addition, you talked also about the fact that there is a large market of spurious products and spurious filters, we also are going after that opportunity in that market in a very focused way. One way of doing that is of course is to look at segmented and tiered AMC offers. But the other way is also to increase customer awareness about what it takes to differentiate between a genuine and a fake Aquaguard filter, as also then taking legal action to come down hard on these parallel operators. So, all of these work streams are going on. We will also be doing some consumer awareness campaigns in the period going forward to inform customers both about a segmented AMC offer as also what it takes to differentiate between genuine Aquaguard filters and the fake ones, and you will see that play out very soon in the market.

Gaurav Khandelwal: I think on the second part of the question on the impact on margins, as you can imagine, service business will be at a higher margin profile than a product business and that is the same thing which would play out here as well. I just want to draw attention to the fact that different price points come with different propositions and the associated cost structure. So, it's not that a lower price point offering is something which will come at a lower margin necessarily because the offerings also change depending on the price point. And the way we structured it is to make sure that there is a certain minimum threshold margin that each of the price point offers. So, that's our approach. I think I'll just again at the cost of repetition draw attention to the fact that the sheer number of people who are not in the AMC fold is far bigger than those who are with us. And therein lies the opportunity which through a combination of lowering the entry barrier, awareness and access all of these three coming together along with grey market operations is intended to help unlock this value.

Devika Sethi: Sir, can you please talk about this new product that you've launched? I have been noticing that the world is moving towards hiding their water purifiers, either inside the cabinet, on top of the sink or under the counter. So, then what was the thought behind this new launch, which makes water purifiers visible and attractive to look at as well?

Pratik Pota: It's a great point that you make. I think we are seeing a lot of trends play out when it comes to kitchen appliances and devices and when it comes to our own category. Certainly, one trend is what you spoke about, which is under the counter products. Equally, there is a trend towards having devices and kitchen appliances which are sleek, which fit in with modular kitchens, which fit in with all the new age devices that kitchens are now beginning to carry. And therefore, this innovation that we've done the, the glass bar range that you're speaking about, is to talk to that consumer and to address that opportunity. A consumer who has got a kitchen that is sleek, that's contemporary, that's possibly all glass and brush steel and she's looking to have a device which belongs right there. So, this marries very, very strong functional advantages, instant water dispensing through UV LED lamp, display of input and output TDS. So, those are very, very strong functional benefits along with a form factor, along with the design, that's modern, that's contemporary, that's sleek and that fits in with all the kitchen appliances that she possibly may have in a kitchen. So, this seeks to address that opportunity. There are other opportunities that we'll also address in the months to come, which are more in the areas that you spoke about.

Moderator: We'll take the next question from the line of Siddhartha Bera from Nomura. Please go ahead.

Siddhartha Bera: My first question is on the revenue side. So, we have done multiple product interventions like stainless steel tanks, affordable purifiers over the past few months. So, just wanted first your thoughts on what will be the contribution of revenues coming from all these newer products which have got launched in the last one year? And if I look at the growth in the coming years, will it be some of these products which will be driving that or you see further acceleration possible from these or do you expect the base business to pick up, so some thoughts on that part?

Pratik Pota: You're absolutely right. Over the last couple of quarters, we have done a number of interventions spanning a large part of our water purifier range, starting with the economy product, supported by advertising, supported by distribution expansion. We've also done innovations around stainless steel and the premium products as well. Encouraged to see that our growth in Q2 in water purifiers was strong double-digit growth and that growth came not just from the economy range but from across our price points. We expect this to continue and maybe to even gain momentum as we roll out more and more innovations. I spoke earlier in the call about the glass bar innovation that we've just launched. You can expect to see more innovations in the periods to come as we tap into emerging consumer opportunities and plug some of the gaps in a portfolio. So, to answer your question, you will see growth both from our existing range of products, but also from our innovations, both the ones that we've already done, and also the ones that are in the pipeline. Interestingly that answer holds true not just for water, but also for vacuum cleaners. We have seen strong growth come as I said in my opening remarks also from the robotic range of vacuum cleaner and we expect that to continue. We've just rolled out three new vacuum cleaners in the premium upright segment, and we've also rolled out a pet grooming kit. This happened in this quarter in October, not last quarter. But that just continues the trend of driving premium innovations and offering our customers differentiated propositions and we expect this to drive growth for us in vacuum cleaners as well.

Siddhartha Bera: Sir, some thoughts on the service revenue part of the business. Will the growth trajectory on that part be similar or better and with the new categorization being launched now, do you expect any further acceleration in the service part of the business as well? Second on the cost side. Sir, we continue to do these digital initiatives to improve the customer experience and drive down cost. So, shall we expect in terms of the service charges as a percent of revenues, which are there that also to sort of come down from the current levels with these initiatives you have done or are currently doing?

Pratik Pota: So, I will just respond to your first question on service revenue, and I will request Gaurav to come in on the question on service charges. So, on service revenue, you're absolutely right. The whole logic of doing segmented and tiered AMC was to expand the size of our service offering and to drive much greater penetration of our own AMC and own service amongst the installed base and there as Gaurav mentioned earlier, there is a lot of headroom for growth. We will also be driving, as I said earlier, awareness around genuine Aquaguard filters, and to address the large number of out of warranty out of contract customers who sometimes resort to and wide filters on the parallel market, not knowing often whether what they're buying is genuine or fake. So, both of these will lead to growth in the service business, and you see that reflect in the quarters to come. Like I said, early feedback and early experience of the segmented AMC is encouraging. But as you can imagine, this requires a fundamental behavior change from consumers. So, it will take time to build up. But we are optimistic and will remain on this path.

Gaurav Khandelwal: On the cost side, I think just to layout our approach, our focus on cost initiatives will be across all lines, starting from procurement efficiencies all the way to indirect overheads, everything and service charge would be a part of it. So, that's one specific area that we're looking at is, for example, our warehousing logistics cost, IT cost, our procurement cost because of volume benefits that come in. So, those are specific areas that we're looking at. Coming to your question on service charge, yes, amongst the larger initiatives, we would also be looking at service charge, but again, service charge is in some nature a bit of a semi variable cost because part of that cost is attributable to service revenue. So hence to that extent, there will be an interplay of how revenue moves. But our overall approach would be to keep looking at every single cost line and extract opportunities and efficiencies.

Moderator: The next question is from the line of Harshit Kapadia from Elara Capital. Please go ahead.

Harshit Kapadia: A few questions from my side. Just wanted to check with you, as you mentioned in water purifiers, we have seen double-digit volume growth. Did we also see in the vacuum cleaner as well a double-digit volume growth?

Pratik Pota: To your question, true is to see strong growth across the board, especially in water purifiers, we saw strong double-digit volume growth. In vacuum cleaners we saw growth as well and the growth was encouraging. Specific sub-segments within vacuum cleaners delivered a very, very strong growth and we are seeing this as a pattern playing out in the vacuum cleaners category where there is a move towards segment of convenient cleaning, the segments of robotic vacuum cleaners, the segments of upright vacuum cleaners, handhelds. So, these cordless more convenient vacuum cleaning options are growing much faster as it did for us in last quarter.

Harshit Kapadia: Second question is on the mix of your channel, which you have been trying to reduce your direct to home network and trying to get towards the other channel. So, how has been the growth within these channels, was it led by e-commerce or any other channel that you can highlight?

Pratik Pota: Look, I think the larger point is that, as you know, we are fortunate to have an omni channel mosaic between retail, e-commerce and direct sales, which allows us to drive multiple GTM interventions, allows us to drive distribution, drive access, also allows us the ability of being able to create categories and sell premium propositions in a one-on-one setting environment. In Q2 specifically, we were encouraged to see strong growth in e-commerce, we were encouraged to see strong growth also in our retail business and we were also encouraged to see a strong growth in our direct sales productivity. The growth actually was fairly cross-channel and across the board.

Harshit Kapadia: What has been your ad spends and promotion expenses in this particular quarter since this is the largest quarter for you? And secondly, the service charges cost has also increased in this quarter, which you have been trying to reduce. So, anything to read out of it and do you think this is going to continue going forward?

Gaurav Khandelwal: We don't give out a separate cut on ad spends and sales promotion expenses. But what I can say is that our spends in Q2 have increased versus the previous quarter and directionally, we intend to keep investing in this area. I think from our perspective a very clear learning has been that the campaign that we came out with had a very good impact on the volume growth that we are seeing for the second successive quarter. So, this will for us remain an area of focus. As far as service charge is concerned, on a sequential basis it has remained flat. On a year-on-year basis, there is a slight increase. But as I mentioned, it is a semi-variable cost. There are elements which are driven by revenue, there are others which are non-revenue linked. But again, our focus would be to keep driving efficiencies in that area as well without having an impact on the revenue part of it.

Harshit Kapadia: Just a clarification was on the filter side. Are the filters manufactured in-house by you or is it outsourced? And since we are increasing more on service side, so are we increasing any CAPEX on manufacturing filters or anything on that front would be helpful?

Gaurav Khandelwal: On the CAPEX side, as we mentioned that we expect a step up from the CAPEX levels of previous year. So, that is something that will play out during the course of this year. And as you seen in H1 we've almost spent an amount of CAPEX which we would typically spend in a full year. The CAPEX having said that, on the manufacturing side, we do not see any major requirement at this point in time. We believe we have adequate capacity. Wherever investments are needed and many of it may be required more at a vendor end than at our end, those investments will happen to cater to the increasing volume growth and that is something that we will continue looking at on a continuous basis.

Pratik Pota: On your first question, I am not sure if I heard it correctly or not, but just we do manufacture our filters in-house if that was your question.

Harshit Kapadia: Yes, sir, that was the question. So are you ramping up these spare filters capacity since you are already reducing the charges on filter, so there could be as you expect more customers to come and take a service from you, which would be a larger share. So, are we prepared for those kind of increase which will come?

Pratik Pota: It's a good question. We are anticipating a growth in volumes and therefore we are executing all the necessary actions required to support that volume growth both in terms of having a higher capacity in the service technician network as also having a higher capacity to manufacture and supply filters. So, in both the fronts, we are enabling the back end to support what we believe will be the growth in service volumes.

Harshit Kapadia: I think what we have seen across many parts of India, the air pollution levels have increased significantly. So, are you looking to any launch anything on the air purifier front or if you can give any color on how do you expect this particular product to grow?

Pratik Pota: You're right absolutely. And I think at this time of the year I think all of us, whether we live in Delhi or in Bombay or in Bangalore, I think it is a very, very current topic and increasingly we are seeing that poor air quality is a challenge that will manifest itself across the country and across the year. We have a very small air purifier business. We've just launched two new products in this Q3. It has gone to the market more recently, which is aimed at addressing this opportunity. That said, while we will have some play therefore and some growth coming from air purifiers, I think we are spending this year much more in building our capabilities, building the consumer insighting, building the playbook to allow us to drive a much larger play on air purifier starting next year. We have no doubt that air and air purifiers will be a big opportunity for us in the years to come. And it will not just be a not-play and it will not just be a seasonal play. And we intend to create all the capabilities and strengthen the foundation will allow us to play this much more strongly next year. While we do have a small portfolio which will do well, but materially and substantively, it will be a play that will manifest itself next year.

Moderator: We'll take the next question from the line of Kevin Gandhi from CapGrow Capital. Please go ahead.

Kevin Gandhi: I just had one question on the tiered AMC. So, just wanted to understand how much percentage of the installed base in the tier 2 or tier 3 cities as we are going for the AMC services is serviced by our own company versus the other parallel operators which you just mentioned, so just some idea of it?

Pratik Pota: Thanks, Kevin. That's the key question, right and therein lies the opportunity. So, like I said earlier, we have an installed base of about eight million customers. Within that there is a much larger and a substantively larger segment of consumers who are not in our service offering as compared to customers who are on a service offering, and that gap is huge. It is to address that gap and to address that opportunity that we've launched this tiered or segmented AMC offer. And by launching this offer and by supporting that through communication, digital communication, one-on-one communication, we intend to bridge the gap which exists right now, which is allowing our customers to avail official high quality Aquaguard service at a much more affordable cost. So, that's the gap that we are trying to bridge, and we are very, very optimistic about how this is going to play out.

Kevin Gandhi: How much of the service revenue growth do you expect by this initiative in coming two years or three years just some color on it can help?

Pratik Pota: Kevin, think about it in two ways. One tailwind that we see, and which will help us in our service revenues potentially is exactly what we said is the tiered AMC and the larger attempt to expand our official service pie. It will play out gradually over time because it requires behavior change, it requires people to come to us as the current service contract expires, it will take time to play out, but it will play out, and that is clearly a tailwind. All the work that we've done, all that we have seen gives us a lot of encouragement that will be a good tailwind for us. The other tailwind to our service revenues potentially is the strong volume growth that we spoke about in water. Knowing that our new units sold today is a potential service offer that we open up occurs to a year from now. So, strong volume growth and continuing volume growth in water purifiers is also going to be one tailwind for us in the times to come for service revenue. So, overall put together, while we do not give a revenue guidance, the reality is that we are extremely optimistic about the way this will play out in the periods to come.

Moderator: The next question is from the line of Sagar from Financial Research Technologies. Please go ahead.

Sagar: So, could you give an indication of what would be the size of the parallel markets in both products and AMC service businesses?

Pratik Pota: Sagar, thank you for the question. The size of the parallel market and product is not very large, about 75% to 80% of the market is organized on product. In the case of service, the largest share of the market is unorganized, not just for us, but for the larger category as well. I would say that the larger service market is unorganized and therein lies the opportunity for us to tap into it.

Sagar: I believe that the unorganized market is bigger than the organized, right?

Pratik Pota: It would be yes, absolutely.

Sagar: Any indication what will be the size of that in terms of value?

Pratik Pota: Sagar it's a good question and it's a question that we often debate and discuss internally as well. It's very hard for us to put a number to it because of the very nature of this unstructured market and unorganized market. It is fragmented, it is very local, it is hard to quantify and hard to trace. So, very difficult to put a number to it. But the larger point being that, as you said, the unorganized segment is larger than the organized segment of service, and in many cases, customers don't even know that they're availing of a parallel operator service, they think it's the organized brand giving them service. So, giving visibility on that, giving our customers easy access, digital access, convenient access, creating awareness, providing distribution, providing the right price point is a way of driving service revenue is much higher and making the market a lot more organized.

Moderator: Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Pratik Pota for his closing remarks. Over to you, sir.

Pratik Pota: Thank you, everyone for joining the call and asking the questions. I know that this call has happened a week after our earnings being put out and that was obviously because of the Diwali festival in between. We go back to doing the follow up call straight after the board meeting from next quarter onwards. I hope we've answered the questions that you've posed to us. In case you have any follow up questions, please feel free to reach out to us and we'll be happy to respond. Thank you so much and once again, festive greetings to all of you.

Moderator: Ladies and gentlemen, on behalf of Eureka Forbes, that concludes this conference. We thank you for joining us and you may now disconnect your lines.

Note:

1. This document has been edited to improve readability
2. Blanks in this transcript represent inaudible or incomprehensible words.

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