

Eureka Forbes Limited

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BSE Limited

Phiroze Jeejeebhoy Towers,
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Scrip Code: 543482
Scrip ID: EUREKAFORBE

Sub: Intimation of Transcript of Earnings Conference Call held on Wednesday, May 29, 2024

Dear Sir/Madam,

Pursuant to Regulation 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 on Wednesday, May 29, 2024.

The transcript of the aforesaid Earnings Call is also 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

Pragya Kaul
Company Secretary & Compliance Officer

Encl: As above



“Eureka Forbes Limited
Q4 & FY24 Earnings Conference Call”
May 29, 2024

**MANAGEMENT: MR. PRATIK POTA – MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER
MR. GAURAV KHANDELWAL – CHIEF FINANCIAL
OFFICER**

Moderator: Ladies and gentlemen, good day and welcome to Eureka Forbes Limited Q4 and 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. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing star then zero on your touch-tone 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 afternoon and I welcome you all to the Q4 earnings call of Eureka Forbes Limited. As we complete the first full financial year of our transformation program, Udaan, I will start by sharing my reflections on the ground we have covered during the year gone by. I am pleased to report that we made considerable progress on several vectors of our strategy.

Let me start with volume growth. For a business which has had a long-term trajectory of declining or low volume, we have now had four successive quarters of volume growth. This growth has been broad-based across both water purifiers and vacuum cleaners. It has reinforced the belief that our categories are indeed amenable to growth with the right mix of pricing, product and consumer proposition.

This brings me to the next big vector which is on product innovation. For the past several years, we were followers on innovation. As part of our transformation efforts, we consciously made several upfront investments in our R&D and marketing capabilities and the results of that are now being reflected in several innovations that we have rolled out in the second half of last year.

From the Slimtech range and the Blaze Instant Hot product in water to the Zerobend series and Robotics in vacuum cleaners, it has been a busy innovation calendar with indeed many more to come in the period ahead. Through our innovations and our focus on category-creating communication, we have started the process of reclaiming our role of building categories.

We launched several new campaigns during the year. Our 'Nal Se Kapda' campaign was directed at driving category penetration and our research showed that indeed more than 70% of our customers that we acquired were first-time category entrants. Similarly, our campaign on Robotics also helped drive significant growth in the segment.

Another area of priority for us is customer service. The service expectations of today's customers are higher and the benchmarks are category-agnostic. We have launched several initiatives to improve our customer experience. We have targeted an industry-first agenda of one-hour service under our project Gatiman and today more than 70% of complaints get resolved in an hour. We have upgraded our digital assets and made them more customer-friendly and 75% of our customer engagement now happens through our app and our website, a big step-up from less than 30% last year.

The other dimension of service transformation is driving service revenues. Towards that, our interventions are aimed at addressing affordability, access, authentication and awareness. We have improved affordability by launching tiered and segmented AMCs which reduce the entry barrier for a customer by offering AMCs at prices as low as INR 599.

On access, we upgraded our app and the UI/UX and this is making it easier and more convenient for our customers to buy AMCs online. We have seen a significant increase in our online B2C AMC purchases. As you are aware, the service market is plagued by several parallel market operators who provide spurious filters, thereby putting customer health at risk.

We believe that the solution lies in empowering customers and creating awareness. Hence, for the first time ever, we have launched a campaign on Genuine Eureka Forbes Service aimed at educating and thereby protecting our customers from fake filters and fake AMC sellers.

Our new filters that have been recently launched have a distinctive design and a QR code that allows customers to self-authenticate the filters. The above initiatives are leading to an encouraging change in the trajectory of our service revenues. This, however, as you can imagine, does not reflect fully in the reported financials as the AMC revenue recognition is staggered while the costs are up front.

These are but a few examples of where we made significant progress and this is evident in our overall performance, more noticeably in H2 of last year. FY24 therefore was in many ways a story of two parts. The early part of the year was focused on putting in place the right enablers and the right investments to kick-start the growth engine and the impact of that has been quite visible in H2.

Growth in our continuing business moved from 2.5% in H1 to 14% in H2 leading to a full year growth of 7.9%. As I look back on the first full year of the transformation, I see us as a business exiting the year on a strong footing on multiple fronts. Credit is due to our team, the Eurochamps as we call them, and our trade partners for embracing the change and delivering early results. This gives us immense energy and conviction for the path ahead.

I am confident that with disciplined execution of our strategic agenda, FY25 will see a further step-up in our performance. On that note, let me switch gears and cover our Q4 performance. During the quarter, we reported a revenue growth of 8.8% over last year. Excluding the impact of discontinued operations, our Q4 revenue grew by 11.4% year-on-year. The growth was broad-based, both in terms of portfolio and in terms of channels.

Water purifiers and vacuum cleaners continued the trend of volume growth for the fourth successive quarter and registered strong volume growth, indeed double-digit volume growth, in Q4. In water purifiers, we saw growth in both our RO and our UV ranges, with strong growth especially in our stainless steel portfolio. In vacuum cleaners, our robotics and upright range grew by more than 100% year-on-year, the entire range of convenient cleaning.

On the profitability side, adjusted EBITDA margins continued to expand on a year-on-year basis and reached a lifetime high of 11.2%, up 186 basis points from last year. This improvement was due to operating leverage, as also a structured cost optimization program. On a full-year basis, adjusted EBITDA margins increased to 10.3%. The first time we've crossed the 10% threshold, an increase of 401 bps versus FY23. We continue to strengthen our balance sheet with a net surplus of INR 108 crores as compared to a net debt of INR 50 crores in exit FY23.

Finally, before I end and hand over to Gaurav, I would like to invite you all to our first Investor Day event on the 26th of June in Mumbai. We look forward to hosting you and sharing more color on our strategy and the way ahead.

With that, Gaurav, it's over to you.

Gaurav Khandelwal:

Thank you, Pratik. Good afternoon, everyone and thank you for joining us. Starting off with our full-year performance, revenue for the year ended at INR 2,189.2 crores with a growth of 7.9% for the continuing businesses. Underlying the full-year growth numbers has been a sustained improvement in trajectory. We started the year with a flat growth in Q1 and a low single-digit growth in Q2, but were able to exit the year with two successive quarters of double-digit growth.

A key feature has been that the growth has been enabled not just by volumes, but through new users in the category, and also having strong growth in the premium segments of stainless steel in water purifiers, and uprights and robotics in vacuum cleaners. The impact of the above has been reflected in our gross margins. While we have pursued a volume-led strategy to drive growth, the range of our portfolio has also enabled that gross margins have remained range-bound.

Full-year margins at 58.8% were down 60 basis points, and have remained stable during the course of the year. Cost control measures and operating leverage ensure that operating expenses as a percentage to revenue were down 453 basis points year-on-year.

Full-year financial results incorporate non-cash ESOP charges of INR 34.5 crores. Our adjusted EBITDA increased by 71.9% for the year to INR 226.3 crores, and our margins expanded 401 basis points to end at 10.3%. Most importantly, we have been able to decisively change the margin table of the business. For a business which for years was operating with a low single-digit margin profile, a double-digit margin profile, and with a sustained year-on-year improvement in all quarters is an important milestone.

This enhanced margin profile gives us the headroom to step up our growth investments as we go ahead. Strong cash flow generation of INR 194 crores enabled a 51% reduction in our interest

costs, leading to an adjusted PBT of INR 172 crores, an increase of 157% year-on-year. Adjusted PBT margins for the year ended at 7.9%, up 464 basis points.

Moving on to the Q4 performance now. Q4 revenues ended at INR 553.1 crores, with reported revenue growth of 8.8% and 11.4% for continuing businesses. Growth was there in both our portfolio and also in service AMC business. Within the product portfolio, growth in EWPs was volume-led, while for VCs, it was driven by a combination of volume and ASPs. More specifically, as the impact of innovation plays out in the coming quarters, we expect ASPs to be a source of growth.

Gross margins at 59% continue to be stable both on a year-on-year and sequential basis. We are beginning to see initial commodity headwinds and the focus will be on accelerating our cost reduction program in this area. Operating costs grew 3.1% year-on-year and reduced 266 basis points as a percentage to revenue. Cost lines remained largely stable. Q4 employee costs include a non-cash ESOP charge of INR 9.2 crores and we expect the ESOP charges to remain stable at these levels in the coming quarter.

Strong cash flow generation, specifically in H2, led to an exit cash surplus position of INR 108 crores. This was reflected in our finance cost reduction of 53% year-on-year. Results for the quarter were impacted by a one-off charge of INR 15 crores related to fire at the company's Delhi warehouse. There was no major operational disruption and necessary insurance related processes are underway.

The combined effect of the above has led to an adjusted EBITDA growth of 30.6%, an adjusted PBT growth of 38.9% and a reported PAT increase of 31.1% on a year-on-year basis. To conclude from a financial standpoint, the past four quarters were focused on driving operational efficiencies and building the necessary building blocks. As we step into the second year of the transformation, we will step up selective investments to drive growth and specific transformation initiatives. On that note, thank you so much and look forward to engaging with you all at our Investor Day.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Siddhartha Bera from Nomura. Please go ahead.

Siddhartha Bera: Yes. Thanks for the opportunity, Sir. So my first question is on the growth side, like now we have seen a full year of transformation and you have done multiple initiatives as well on the affordable side as well as premium side in the water purifier category. So just wanted your thoughts on the growth which we are seeing in the current quarter.

Is it more representative of all the initiatives which we have done and we should expect in the coming years? Or do you see a more step up from where we are currently in terms of the growth? And what will be the key driver for that? Is it more led by affordable segment or premium segment? So some thoughts there.

Pratik Pota:

Thank you, Siddhartha. Thank you for that question. And let me respond to it in two parts. One, as I'll talk about performance that we just delivered in Q4 and then respond to your broader question of the growth outlook and the growth drivers in the future. I think as we spoke in the opening remarks as well, that Q4 was the second consecutive quarter where we delivered double-digit growth. And this was on the back of very healthy double-digit volume growth as well and volume growth across both our key segments of water and of vacuum cleaners.

If I talk about the growth profile in terms of channel, I think our retail business again did very well, our direct business did well. However, we saw some slowdown in the e-commerce space post the festive period in Q4 and both platforms reported a slight slowdown. Notwithstanding that, and as we mentioned earlier, our H2 performance in aggregate was well ahead of the H1 trend.

If I look at the growth outlook for the future, I think we need to step back and keep in mind that the categories that we operate in, whether it's water purifiers or vacuum cleaners or air, all these segments have very low penetration. And therefore, there is a significant headroom for growth in all of them. We also have, as you know, a large base of existing users, both in water and in cleaning. And many of these customers have devices which are old and which are due for replacement.

So we also have a ready market for driving replacement sales. So if I look at the key drivers of growth, I think the first one would be, as we imagined, driving penetration. And we continue to stay invested in making our products and our services more affordable, driving distribution expansion, making sure we invest in category creating communication like we did last year. So that will be one important area for us to focus on and one very key growth driver.

I think, equally, we intend to create differentiated products. We intend to invest in driving innovations to make sure we offer relevant and differentiated products to our existing customers. And therefore, premiumizing our portfolio will also be one big area for us to focus on to drive growth. And as I mentioned earlier, that in FY24, we saw very healthy growth in our stainless steel portfolio, as also in many of our other new products.

And you would have seen our innovations that we launched in Q4. All of them were premium in their nature. Whether it was the Slimtech range of water purifiers, or it was the Blaze Instant Hot product, all these were premium products. The third vector of growth and third area for us to focus on in driving growth is going to be in cleaning. And specifically within that, convenient cleaning. And we spoke about the fact that our portfolio of Robotics and Upright Vacuum Cleaners, the cordless ones, grew by more than 100%.

And we intend to stay invested in driving these segments. And that, we believe, will help us drive significant growth. Equally, some of the other more nascent categories like air purifiers or, indeed, water softeners are areas that we focus on. We had good growth in Q4 and in FY24, but we intend to accelerate that in the year ahead. So, I would say, the other area of focus for us in driving growth is the entire space of D2C.

And the investments we made in digital are now beginning to bear fruit, starting with D2C AMC revenues that are showing healthy growth. If I pull back and summarize all of this, I think we are well-placed to continue to drive growth in FY25, both in our product business and, indeed, in our service business as well.

Siddhartha Bera:

Great, sir. Thanks that was a detailed answer. Sir, this service business, so just some more thoughts here. I mean, what will be the growth if I look at for the entire year in FY24? And, if you can share, what will be the percentage of AMCs which is coming directly to us now? And, going ahead, like you mentioned that we are yet to see more benefits here. What does it mean for the service charges? Do we expect, as a percentage of sales, this should come down going ahead? Or, if you can share some thoughts there?

Pratik Pota:

Yes, Siddhartha. What I'll do is I'll respond to the first part on service and how it's done. I'll request Gaurav to chip in afterwards and talk about the service charge. So, on service, I think it's a very important question that you've asked. I think, if I take a step back and talk about, I think service is an area where we've had tremendous focus and a lot of interventions being made. And, I touched upon some of them in my opening remarks as well.

And if I look at the two vectors and two areas and two directions, the first one was aimed at improving our customer experience, elevating our customer experience and to meet the demands and meet the requirements and expectations of customers, people like all of us who got used to quick commerce levels of service. So a lot of work that has happened in terms of increasing our service capacity and our service network and service infrastructure, getting more technicians, getting more partners on the ground.

We've also done a lot of work around securing our customer data and ensuring data privacy through number marking, customer number marking. We've also put in place a digital platform, and we spoke about it last year as well, where all our technicians come centrally on one platform. We're able to monitor them, supervise them, and indeed be able to allocate calls and make sure that they're deployed efficiently.

We've also moved to doing digital invoices, so that the customer is sure that this is actually a genuine Eureka Forbes AMC that he is buying. These were the initial efforts that we made. And these are more, as you can imagine, back-of-house efforts.

Then, we followed that up with significant changes in customer-facing areas. We talked about the tiered and segmented AMC that we launched. And this has been a big, big driver of making service more accessible, more affordable. We also made investments in improving our UI/UX. And really, I mean, if you look at our app now and you go to the customer, go to the floor for buying an AMC, it's a friction-free, very, very intuitive UI/UX and it's helping drive improved conversions in our entire funnel on the app.

The other thing that we've done, as you know, is we've put QR codes. And our customers struggled with how to authenticate and how to tell apart a genuine filter from a fake one. A QR

code makes it very, very simple. They scan the QR code and they are told instantly whether it's a genuine or a fake. And that's helping us.

And, of course, we've invested behind communication as well. So these put together are helping drive customer awareness and the sensitivity towards ensuring that they're going for a genuine filter or genuine service. And the encouraging part is that we are now beginning to see meaningful impact of all these interventions. The customer acquisition, you know, through service and for our AMCs and for our filters is increasing and we are seeing significant growth there. We also are seeing, therefore, service revenues show a very, very healthy growth.

Now, like I said just now in my opening remarks, this doesn't necessarily translate linearly into the numbers that you see in the reported financials because these are AMC revenues which are staggered and deferred over time. But we are seeing that healthy uptick in AMC volume and AMC revenues.

And back to your question about how much of it comes directly, short of sharing numbers, I think we are seeing a significant increase in the proportion of our AMC revenues, coming from our own online D2C channels. And the even more encouraging part of that is that a significant number of these AMCs come from customers who have lapsed some time ago, who are out of warranty, out of our AMC contract. And therefore, these are completely incremental and additive to what we would get from an existing legacy business partner network which is up there on the ground. So we are actually getting incrementality to our D2C interventions.

And if I have to hazard a guess for the future, given all that we are doing on service, we expect that our service business and service revenues will continue to deliver healthy growth in the period ahead. GK, on the service charge.

Gaurav Khandelwal:

On the service charge, Siddhartha, I'll just first draw attention to what comes within service charge. This has got two components. One part of that is something which is linked to revenue. So as service AMCs grows, this part of the service charge will increase. The second part which is there is related to call volumes. There are complaints, there are installations, there are mandatory service visits. That is something which is independent of revenue and it runs on those axes.

At a principal level, I'll just draw attention to two or three things. First is around the fact that the cost related to call volumes, etcetera, is immensely amenable to technology interventions. So if you were to look at the number of complaints that were getting addressed through our non-digital assets, that has gone up exponentially. So roughly 12 months back, that number was 30%. That's now gone up to 75% of our complaints being addressed through an app. So that is one big lever as far as driving efficiency in that area is concerned.

The second area that is there when I look at service charge is that as we keep scaling up our D2C revenue streams, revenue which comes directly by a consumer buying it either online or on the app, that will also give us a cost advantage because those channels of acquisition are cheaper than going through the offline route.

So that's the way at a direction level, we are not expecting our service charge to outstrip the increase in our service revenue. Having said that, I just want to call out one thing that purely from an accounting standpoint, the AMC revenue is something that is staggered over the life of the AMC, while all the charges that we speak about in terms of cost of acquisition, that is something which is recognized on day one. So there is an element of timing difference, but at a gross level, we don't expect our service charges to outstrip our service revenue growth.

Siddhartha Bera:

Great Sir, thanks a lot. I have a few, I will come back in the queue.

Pratik Pota:

Thank you.

Moderator:

Thank you. The next question is from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddha Joshi:

Yes. Sir, thanks for the opportunity. From the media news flows, we see the number three player, Hindustan Unilever may exit the category also. So how do we see the opportunity for Eureka Forbes? One obviously can be an inorganic opportunity or secondly, in general, a third player not investing much in the category. So there can be potential to save in terms of ATL or BTL spends to us. So just wanted to understand on this front from you. That is question number one.

And then secondly, question number two in terms of all the investments or the changes to the products or innovation that you are thinking about is more in terms of the utility, improving the utility of the product. We have seen historically, more generally the lifestyle or vanity products or even fashion products tend to earn a very high margin, Fair & Lovely or such kind of products. Or in a way, right now also in durables also, we see there are a lot of lifestyle changes happening to the products and those fans, etcetera, are selling at a much premium realization.

So the margins can be better over there. So one, while we are investing in terms of utility of the product, is there any thought process in terms of improving the lifestyle quotient or fashion element in this kind of products or first of all, is it possible also in this? So these are the two questions from my side. Thanks.

Pratik Pota:

Aniruddha, thank you for the questions. I think on your first question, it was in two parts. We are aware of the media speculation as well that you referred to and I think it would be unfair and wrong for us to comment on what is clearly speculative and out there in the media space.

More broadly, if I may say, we are very, very growth obsessed and we remain open to any opportunities, organic or inorganic, provided they come at the right value and we believe they add value to our business and to our shareholders. So that's a broader answer. I don't want to comment on the specific question you asked because that is, like you said, what we read in the media as well.

Look, the other part of your question about impact on competitive intensity, etcetera, I think we value and we welcome all competition, whether it is from legacy players or new entrants. I think competition is vital to create more excitement in the category, more new news, to drive

innovation and to therefore get more and more customers to be interested and to come and evaluate and hopefully enter the category.

Having said that, our focus is on the consumer and on navigating by what the consumer's needs are and what she expects from a water purifier and we continue to be focused on that regardless of what happens in the competitive environment.

Which brings me to the second part of your question, what innovations? I think that's a really good observation you made, Aniruddha, about different kinds of innovations and what are we focused on. I think the innovations that you have seen already in the market are in two broad areas. One is, like you said, utilitarian.

So, for example, the instant hot water that we have probably launched or indeed earlier we've had success with the stainless steel portfolio. These are more functional and very relevant differentiators that the customers value and we have seen good success and good feedback and good response to our instant hot product as well. But the other vector is on, like you said, I can use the word vanity and more premium and more lifestyle innovations and I would like you to look at our Slimtech range of water purifiers.

These are glass designs, toughened glass, a completely plush glass look and they look unlike any water purifier that you have seen in the market. They are by far the most premium looking water purifiers and we have already launched the glass range, Slimtech range in UV and that comes at a significant price premium to the rest of the UV range. More than 60% price premium.

So, I think you are spot on the fact that with lifestyle quotient and with great design, we actually command a premium and customers really value that these days. I mean, think about it. You have a nice modular kitchen with your other devices looking absolutely contemporary.

What you would expect and what you should expect and you would get from Eureka Forbes is a similarly classy looking water purifier. So, that would be the other area of focus for us which is even as we innovate and drive functional differentiators, we also have a very strong emphasis on design and on aesthetics and that is already something that is going out in the market. I hope that answers your question, Aniruddha.

Aniruddha Joshi:

Yes, this is very helpful. Just one bookkeeping question. So, we are doing the portfolio restructuring and the continuing business growth is always higher than the reported revenue growth. So, just wanted to check, now FY24 is over. Do you see further restructuring to continue in FY25 or largely the restructuring of portfolio is over?

Gaurav Khandelwal:

Aniruddha, no. The portfolio restructuring is over. We do not plan to do any further restructuring for the portfolio. What you have seen in FY24 are essentially remnants of the previous portfolio which has carried forward. This gap that you see would be there for H1 of the coming year but after that it will taper down and even within the H1 of the year the range will be roughly 1.5%. So, it is not going to be the gap that you see today. So, H1, roughly 1.5%, half two of the year this will taper away completely.

- Aniruddha Joshi:** Okay, sure sir, understood. Very helpful, thank you.
- Moderator:** Thank you, we have the next question from the line of Nandita from Marcellus Investment Managers. Please go ahead.
- Nandita:** Thank you, am I audible?
- Pratik Pota:** Yes Nandita, I can hear you clearly.
- Nandita:** Okay, perfect. Thank you so much for the opportunity. So, I had a couple of accounting related queries that I came across. The first one is that in the consolidated cash flow statement there is a working capital outflow of roughly INR 42 crores but when I compare it with the balance sheet there is a working capital reduction of around INR 29 crores.
- So, where is this difference coming from? And related to this in the balance sheet we can see that the inventory movement is around INR 33 crores but the same on the cash flow statement under change in inventory it shows a movement of around INR 48 crores? So, if you can just help me understand the difference.
- And the second question is that it seems that even after excluding the ESOP charges, employee cost has gone up from around INR 62 crores in Q4 FY23 to around INR 76 crores in Q4 FY24. So, if you can also help me understand this increase in employee cost excluding ESOP charges that would be great?
- Gaurav Khandelwal:** Ya, Nandita. So, let me pick on the employee charges first. So, the delta that you see is largely a combination of two or three things. First, we started the process of building our capabilities across various teams which was R&D, digital, product management, data science, marketing and what we've seen now is a full year impact playing out because that process teams have come in at different points in time. So, that's been one driver.
- The second driver has been the impact of annual increments and the third is due to higher revenue growth, the incentive payouts have been higher and that's the one which has led to a year-on-year increase. Having said that, if you look at during the course of this year our employee cost have been in the range of INR 72 crores to INR 75 crores.
- So, that is something which has been range-bound and that is something we believe that this is one area where it's an opportunity to drive operating leverage and we expect to keep this cost range-bound as we go ahead. As far as your comments on inventory is concerned, the INR 33 crores increase that you see is largely a function of innovation build-up that has happened.
- So, there are a bunch of innovations that happened towards the H2 of the year and that is something which has led to the inventory increase. The delta in inventory is a function of the loss that we had in a Delhi warehouse. There was an INR 15 crores inventory loss that happened due to the Delhi warehouse fire and that is the reason for the delta.

- Nandita:** Alright, so, you're saying essentially that this innovation build-up that you're talking about in H2, will get commercialized sometime in the next FY or has it already been used up?
- Gaurav Khandelwal:** No. Commercialized you mean? So, just for clarity there is a, since innovations have come in Q3 and Q4 there is a build-up that has happened because when an innovation comes in it is relatively more difficult to project the demand. We did not want to be in a situation where coming out with industry-first innovations you run out of inventory and hence there is a build-up that has happened and this will normalize as we go ahead.
- Nandita:** Okay, alright. Thank you.
- Moderator:** Thank you. The next question is from the line of Renu Baid from IIFL Securities. Please go ahead.
- Renu Baid:** Yes, hi. Good afternoon team and thanks for the opportunity. My first question is now that it has been almost four quarters of strong double-digit volume growth but still we continue to see the gap between volume and value growth so in your view by when do you see this gap narrowing out and value growth finally outpacing volume? In your view.
- Pratik Pota:** Thanks Renu. Thanks for the question. And you're right. I think our first objective was to ensure that we fire the growth engine in terms of volume and therefore we were pleased to see double-digit growth come and like you said for a large part of last year we had strong double-digit growth.
- In the early part of last year we saw a significant investment being made in the economy portfolio and that led to an ASP dilution in the early part of the year but however as the year progressed with the innovations in the premium space kicking in, we could see the ASP dilution come down significantly and the volume and the value gap to have narrowed significantly from Q1 to Q4.
- And going forward we don't expect to see given the balance between driving penetration and driving premium water purifiers and premium range more generally. We don't expect to have a gap between the volumes and the value growth. I think in the early part of the year we were keen to drive the growth, innovations have still not fired and therefore there was some dispersion, but that gap has reduced significantly and going forward we don't expect to have a gap at all.
- Renu Baid:** Got it. So if you look at the overall portfolio today how would be the proportion of premium products in the overall product mix today?
- Pratik Pota:** So Renu if I had to separate volume and value, volume of course the mix is a lot more biased towards economy and towards mid-price segment, but if I look at the value contribution I think we have a very very healthy mix of premium portfolio which is substantive and meaningful and therefore the portfolio is not biased towards economy. It's much more balanced.
- Renu Baid:** Sure. Secondly, if we look at the last quarter also while we closed it, the initial part of the quarter overall demand sentiments across consumer categories and products was weak so probably

would have been for the water purifiers and vacuum cleaner category. So how are we looking at the end market demand? Have we seen some respite and pickup in volume uptake from consumers more on the expected line or do you still feel market is still under flame in terms of the actual uptake?

Pratik Pota:

Yes Renu that's a really good question and that's in many ways I guess the question that we've all sort of agonized over in the last one year. See we have seen some green shoots kick in during the third quarter during the festive season where we could see an improved consumer sentiment and we could see demand conditions get better.

However, in Q4 we saw perceptible slowdown especially in the online e-commerce space and therefore the consumer sentiment which was looking to improve in Q3 or looking like improving in Q3 again looked and became a lot more tepid in Q4. So to answer your question I think the demand still remains a bit of a challenge.

Towards the end of Q4 what also happened was and I think we're all living that reality even now. I think because of the heat and the impending summer we could see consumers prioritize cooling products, air conditioners, fans, and all of that coolers over other durables. So we could see that demand, the spend move towards some of these categories from the broader space of durables. I'm sure that will correct overtime, but that's something we saw in the month of March specifically for last quarter.

Renu Baid:

Over April and May, as we head towards monsoon you think that spend correction is happening back in favour of our categories or still is being relatively under played?

Pratik Pota:

Look, I don't want to sort of talk about the future so much, but certainly going forward once the monsoon comes by we expect that this equation will get more balanced. But in the summer month more generally there is a preference as you can imagine for products that provide relief from the heat, from the extreme heat. So that continues through the summer, but going forward beyond summer, that will equalize.

There will be much more balance restored in the demand across different durables, but certainly we saw that in the month of March as we entered the summer month we could see people prioritize air conditioners especially over other categories.

Renu Baid:

And lastly just couple of bookkeeping questions, A) broadly what was the kind of advertisement and promotional spend for fiscal '24 and given that we had a pretty good pipeline of new products being launched last year and same for fiscal '25, should one expect this spend to continue in the coming years?

Pratik Pota:

I'll cover the broader point and maybe then Gaurav you can respond to the numbers. So Renu let me respond first in the broader level in terms of our strategy and we have talked about this in the past as well that one of the reasons we have seen challenged growth in the past has been the fact that we haven't invested and we haven't leaned in on advertising and on sales promotion expenditure especially in advertising.

So during the course of FY24 we invested in two kinds of campaigns. One was to drive penetration and to drive category creation, but the other the second half of the year was to invest in driving premium products the Slimtech range, robotic range. but also to drive service, the entire service category and that has led to what you talked about earlier strong double-digit growth, volume growth and now we are seeing growth continue in Q4 as well.

Gaurav Khandelwal: Coming to the question on the advertisement spend, we have increased them by double-digits in FY24 and that has been done as you mentioned to support our innovation and equally as we pivot towards more category creating communication, it's also being done to support that. The 'Nal Se Kapda' campaign was one attempt which was there for the last 2-3 months. We have had a campaign on genuine service. So we are repivoting our spends more towards consumer pull which is advertisement and those spends have seen a double-digit growth. Having said that we are equally finding opportunities in other spend lines to make sure that the overall bucket of advertisement and sales promotion and overall opex in general is kept range bound.

Renu Baid: Got it, is it possible to quantify it or should we wait for the annual report?

Gaurav Khandelwal: We'll have to wait out for the annual report where you will get the breakup.

Pratik Pota: Renu, just to add that even within the advertising spend, within the aggregate advertising spend that Gaurav spoke about we have chosen more productive kind of investments and spends in advertising, and we have pulled back from spends which were a little bit less effective and less working. So the working A&M part has been prioritized and that again translates directly into greater consumer facing visibility and therefore growth.

Renu Baid: No surely I think your efforts of scaling up the services awareness and penetration is clearly visible both for investors and consumers as well as in the numbers. Thanks much team and we'll get back with other questions or queries.

Pratik Pota: Thank you Renu. Thank you for your questions.

Moderator: Thank you. The next question is from the line of Abhijit Akella from Kotak Securities. Please go ahead.

Abhijit Akella: Hi, thank you, good afternoon and congrats on a good year. Just three quick ones from my side. One is after the strong margin expansion we've seen already thus far; do you think most of the scope for expense takeouts is already exhausted or is there meaningful scope for further expansion going forward? That's number one. Number two on the cash generation which was almost INR 200 crores for the year. As that hopefully continues to ramp up, what might your plans for use of the free cash flow be? And the last one was just any sort of update you could share on the rental plan rollout. Is there a timeline that we could sort of anticipate on that? Thank you.

Pratik Pota: Thank you, Abhijit. Thank you for your questions and for your compliments. I request Gaurav to answer the first two questions. I'll come back on the rental part.

Gaurav Khandelwal: On the expense part, we see it as something as an ongoing program. There are continuous opportunities that are there and where more efficiencies can be extracted. So that is something that remains a continuing priority. We do not believe that we have reached the end of efficiencies. If I were to give you a specific example, while for FY24 lot of the focus was on items which are below gross margin, as we have volume growth, we also see opportunities coming in our COGS line. So that is something that there are specific programs in place to drive those efficiencies. So, we will continue to work in extracting those efficiencies.

Also, I think keeping in mind the fact that you know after having reached a particular threshold of margins and making a decisive break from the past table, we will also be as we get into year two of the transformation, we will be stepping up our growth investments and in certain specific areas if there are transformation investments needed those will also require funding and hence our cost program is something which will continue.

Coming to the second part on cash generation, yes, I think it's been a second successive year of strong cash flow generation. See, from our perspective there are multiple ways in which cash could be deployed. If there are any opportunities and if they add value to shareholders that could be one area. If it means rewarding the shareholders in some form, subject to board approval, etcetera. That could be the other areas. So, at this point in time, all avenues are open and obviously there are the intrinsic growth investments that are needed for the business. So, all options are there on the table and we will take a decision as the year goes.

Pratik Pota: Abhijit, just to add to that and your question on rental, as you are aware, we have had the rental pilot operational in Chennai. Even as we speak, the pilot is operational in Chennai and we are looking at it closely and looking to see the learning that we can extract from this pilot. Given the multiple priorities that we have got already on our plate, this is something that we don't intend to scale up in the first half of the year.

As we exit FY25, we will be evaluating the extension of the rental project into other markets starting with other proximate markets in the south and then looking at a scale up more broadly in FY26. I think we are convinced about the potential of the rental model and in a market which is extremely economy conscious and price conscious. We believe the sachet model for water purifiers as in the rental business has tremendous potential and will be a source of growth for us in the future. But given the priorities on the plate right now, it's something we have chosen to do only towards the end of this year.

Abhijit Akella: Understood. Thank you so much and wish you all the best.

Pratik Pota: Thank you, Abhijit.

Moderator: The next question is from the line of Parikshit Kabra from Pkeday Advisors. Please go ahead.

Parikshit Kabra: Thank you for the opportunity and congratulations on your results. I wanted to understand in the water purifier market, how is the market share trending? That is my first question.

Pratik Pota: Let me answer your first question first. I think you are aware that we had for many years, we have had market leadership positions in water purifier and in FY24 specifically, we invested in driving category growth to a penetration campaign and also as we mentioned in the second half of the year, we focused on the premium portfolio to drive the top end of the market. I think the context also, Parikshit is that in the years preceding FY23 and FY24, we have had many consecutive years of market share decline.

However, given all the work that we have done in FY24, happy to report that we have indeed seen green shoots on market share in FY24 in this year. As we exited Q4, when all the premium innovations came into play, we were pleased to see a clear increase in year-on-year market share for water. You didn't ask this question but we also saw encouraging market share increase in vacuum cleaners as well. And we expect to see market share improve in FY25 as well as our portfolio gets stronger and as our strategy gets into execution more and more.

Parikshit Kabra: Great, thank you for that. The second question that I had was that in your presentation you have shown that the water purifier market the organized part should go at 13% CAGR over the next five years and services at about 18%. But with a penetration of only 6% and the clear ability to build out this market doesn't the 13% number look a little bit slow?

Pratik Pota: So, Parikshit just to clarify, these are estimates by a third party. And these are by Technopack, as we mentioned in the investor report as well the presentation as well and these are their estimates. I think the context for these projections also is the fact that there have been many years of very little or no growth in the segment.

However, like you rightly said, given the near universal need of pure water and given the penetration in other comparable markets that we mentioned again in the investor presentation, we expect to see water purifiers as a category show very strong growth in the years ahead. Whether the growth is 12%, 13%, 15% will be a function of also what people like us do as market leaders and as category creators. So whether the number is 12%, 13%, 14%, I think that maybe not as meaningful a point. As a larger point that we have a strong runway to grow and it's up to us as market leaders to grow this category.

Parikshit Kabra: Okay, thank you. And if you don't mind, can I slip in a last question?

Pratik Pota: Yes, please. Please go ahead.

Parikshit Kabra: Thank you. So the fact that there was a consumer slowdown and a pivot towards cooling products, could you help explain why that would have happened only through the e-commerce channel and not to the other channels? Shouldn't it have affected all the channels equally?

Pratik Pota: Parikshit I'm sorry, maybe I misspoke. What I meant to say was these were two independent tracks. One was the more broad slowdown in e-commerce in Q4 as compared to Q3. This by the way impacted all category and it wasn't nothing to do with the cooling segment. This was a broad channel specific trend. Separately in the month of March, we saw the preference for cooling products, air conditioners, fans, coolers, etcetra. Again this was channel agnostic. So

these are two independent points I made. Maybe I miscommunicated, but they are two separate points. And thank you for asking that question.

Parikshit Kabra: Got it. Perfect. Thank you so much.

Pratik Pota: Thank you, Parikshit.

Moderator: Thank you. The next question is from the line of Rishabh Gang from Sacheti Family Office. Please go ahead.

Rishabh Gang: Thank you for the opportunity, sir. A follow-up question on the pilot plan that you have in Chennai. I want to understand why are we going so slow on it? So Livpure has been doing pretty good on that front. What results are you expecting from the pilot run, which will actually make you think to start on a larger scale?

Second thing, I wanted to ask on the maintenance free products which are coming from players like Urban Company and Livpure. So, customers in past have not liked the journey of getting the product serviced as well as the associated cost of it. And maintenance-free products for the first 2-2.5 years will lead to higher adaptation of the water purifier. So what are your thoughts on it? Why don't you start a similar product? And what do you think about the margin profile of such products?

Pratik Pota: Rishabh thank you for both questions. They're both very, very fair questions. Let me start with responding to the first question on rental and why we are taking time. I think it goes back to what I was mentioning earlier in my response to Abhijit, which is that we remain believers in the potential of the rental business model. And indeed, you talked about some other players who are making progress there. All the consumer work that we do tells us that this model is relevant and will have potential. However, for us as an organization, it's also important that we prioritize and sequence our efforts.

So for the first half of this year, the first 2-3 quarters of this year, we will remain focused on doing everything that we spoke about in our strategy. Driving water purifier penetration, driving premiumization, driving larger cleaning and air portfolio, growing a service business, etcetera, etcetera. And towards the end of this year, we will make sure that we turn back and evaluate the scale up and extension of our rental pilot that's currently in Chennai.

To your point on learnings, there are several learnings that we continue to extract, but that's not the reason why we are not scaling it up right now. Now, I want to put one caveat here which is that having said what I have just said, if we believe that we need to change course and scale up rental faster, we have all the capabilities of doing that.

We have India's largest service network for installing new water purifiers, for servicing them. We've got a large sales team, we've got a very strong D2C backbone. So there are all the enablers required to scale up rental are those capabilities that we already have with us. So, there is no barrier to rapid scale up should we decide to do it sooner.

That's the first part. The second part is about the competing products. You referred to the long-life products, etcetera. Look, there are different consumers and different customers who look for different things. Some customers insist on purifiers and on propositions where they need a service and they would like a service touched frequently, twice a year, thrice a year, etcetra. Some customers are looking for a light touch service model. As the market leader we will make sure that we have a portfolio of products that cater to all different consumer needs.

We have, as you are seeing already in the market, a very strong innovation pipeline. And you will see that if anything increasing and coming out in the future launches increase in the periods to come. So, we are fully equipped to cater to all customer requirements and whether it is long life products long life filters or high touch service we will have the right products for all of the different segments.

On your question about impact on profitability, we don't expect to see any impact because the lifetime value of customers and the cost return equation for these customers is symmetric and therefore there will be no dilutive impact on our P&L.

Rishabh Gang:

All right. Also, you know, I wanted to understand about the unique product innovation that we see. So, this instant hot water thing, even other competitors are doing it. So what actually prevents, so when you say unique, like it should be something which is only to Eureka Forbes. What prevents other competitors from also having it? Do you have any intellectual property protection for things like alkaline or stainless steel, anything like that? Or it's just an innovation which can be copied by everyone else?

Pratik Pota:

Yes, in some cases, it's a good question. It's a more philosophy question about innovations, Rishabh. In some cases, there is IP and there is therefore in those cases, an entry barrier for competition. But more generally, given that technology is becoming more and more accessible and more and more ubiquitous, those barriers are hard to come by. Therefore, innovation is about pre-empting, anticipating and pre-empting evolving customer needs and being there in the market for them first.

Knowing that somebody else will follow you if you do well. That's the law of the innovator. It's like a treadmill. You have to keep running. You have to keep innovating, making sure you're first to market. So I'll give you an example. The two things that I talked about earlier as well.

Our slimtech range of products, we've launched the UV range in the market already, doing very well, and great response. These are sleek design water purifiers. And you can be sure that given the consumer response, everybody set up and taken notice of it. So you will see innovations of this nature from other products players as well, come by. Number one.

Number two, our instant hot product. Aquaguard Blaze Instant Hot. It doesn't have customers to wait for water to heat up. And today, as consumption of Green Tea, etcetera is increasing, that's a very useful feature to have. So we are India's first brand with an instant hot feature. But you can be sure that when the feature picks up and gains traction, somebody else will follow. But when they follow, we should have then by then moved on to the next big innovation. The

innovating is like being on a treadmill. You have to keep running. And I think that's how you drive value and drive differentiation.

Rishabh Gang:

Alright, just last question on my part, you always emphasize on the focus on service income, right? I can observe that it was around 30% of your revenue last year. But in one of the few last concalls, you mentioned that you don't mention the service income on a quarter-on-quarter basis, but mention it annually. First of all, I think, why should you not disclose it on a quarterly basis? Also, this is Q4.

I don't think so you have disclosed it in the investor presentation. So why should someone just wait for such a basic number from the annual report? It's 30% of your revenue. I think I should be able to see it. Similar thing for advertising spend. I think in the previous quarter, Gauravji had mentioned about it.

So why should someone wait for advertising spend as a percentage of revenue till the annual report gets released? Second thing, on the AMC contracts, I understand that it is a staggered revenue recognition because of the nature of the AMC. But you can always tell what's the number of AMC contract as a comparison to the number of Water Purifiers that you have sold in last five years to six years. So why don't you give such a ratio so that I can actually analyse how much good are you doing on the AMC front?

Pratik Pota:

No, thank you, Rishabh. I'll let Gaurav respond.

Gaurav Khandelwal:

Yes, thank you for your question. I think, see, you can imagine that the service revenue stream that we have, that is something which is relatively unique to us within the industry and even outside of it. And obviously, hence, it is a source of competitive scrutiny and advantage. And that's the sole reason why we are conscious of what disclosure we give. Having said that, on a larger basis, I think we started giving more colour on what's happening on the service side. That is something that we will keep doing as we go ahead. Whether we change the disclosure from an annual to a quarter, to be honest, would largely be driven by how we see this from a competitive standpoint.

So that's as far as service income is concerned. Advertisements, again, see, it's something which we are providing colour through our commentary directionally. As we've mentioned in the past, we should expect that we will step up our growth investment. And that is something that you will see when you see the annual report. But again, we'll keep your feedback in mind and see how it can be incorporated as we go ahead.

Rishabh Gang:

So also, I just have one last question, sorry. I want to know more about the on-ground support, right? And the sales team that you have on ground and how you are unique in terms of the competitors, right? In this particular thing. I read that you have around 8,500 plus service technicians. I wanted to ask, is it all in-house? And what has been the strength of employees, right? For the on-ground support and the sales team in FY24 and FY23? And do we actually expect to reduce it or change it? Any guidance on that?

Gaurav Khandelwal: Yes, so I'll follow up first to your question in terms of the model, the on-ground team that you see, you're referring to the service team. That is something which is an off-roll team that is not on our payrolls. It is on the payroll of the business partner. There is an economics between us and the business partner. And the business partner, pays for the technicians that are there. Coming to the first part of your question, in terms of what is unique about us, I think two things I'll call out. One, we have the capability where, while these people are on the roles of the business partner, they are on boarded on a digital platform and hence we are able to performance manage them.

So we know what the productivity is for each technician, how many calls are being handled, what is the Redressal status, etcetera. So that's one key part which is there. The second is that this in itself is a big source of competitive advantage. This is a business where the first sale is not the end of the relationship with the customer. This is something which extends over the lifetime of the customer. And I think we as a player with a four decade old legacy have built a fairly formidable network spread across 19,000 pin codes. And that is something we believe is unique to us and a very very tough competitive moat.

Moderator: Sorry to interrupt, but we have reached the end of the question and answer session at this point. So we will need to close the question and answer session.

Rishabh Gang: Sure, thank you.

Moderator: I would now like to hand the conference over to Mr. Pratik Pota for closing comments. Over to you, sir.

Pratik Pota: Thank you everyone for joining the call today. I hope that we were able to address the questions that you asked to your satisfaction. In case any queries remain unanswered, please feel free to reach out to us and we'll be happy to respond. Thank you once again. And we look forward to hosting you at the Investor Day on 26th June in Mumbai. Thank you. Have a good day.

Moderator: Thank you. On behalf of Eureka Forbes, that concludes this conference. Thank you all for joining us. 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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