Eureka Forbes Limited
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EUREKA FORBES
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November 14, 2024

BSE Limited	**National Stock Exchange of India Limited**
Phiroze Jeejeebhoy Towers,	Exchange Plaza, C-1, Block - G,
Dalal Street,	Bandra Kurla Complex,
Mumbai - 400 001	Bandra (East), Mumbai - 400 051
Scrip Code: 543482	
Scrip ID: EUREKAFORB	Symbol: EUREKAFORB
Ref.: EFL/BSE/2024-25/65	Ref.: EFL/NSE/2024-25/26

Sub: <u>Intimation of Transcript of Earnings Conference Call held on Friday, November 08, 2024</u>

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 Friday, November 08, 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
Digitally signed by PRAGYA KAUL
Date: 2024.11.14 17:11:52 +05'30'

Pragya Kaul
Company Secretary & Compliance Officer

Encl: As above

"Eureka Forbes Limited
Q2 FY'25 Earnings Conference Call"

November 08, 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 Q2 FY'25 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 any assistance during this conference call, please signal an operator by pressing star and 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 result 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: Thank you. Good afternoon and I welcome you all to the Q2 FY'25 earnings call of Eureka Forbes Limited. I hope all of you had a good Diwali break, and my best wishes to you and your family.

Starting off with the Q2 performance. In Q2, we reported a revenue growth of 13.6% over last year, with a revenue of Rs. 672.9 crores. Excluding the impact of discontinued operations, our Q2 revenues grew by 14.7% year-on-year. This was a fourth successive quarter of double-digit growth for our continuing business, and it was underpinned by our product business which grew in excess of 20%. Our interventions last quarter in the areas of innovation, portfolio, pricing and the step-up in growth investments led to sustained high growth in our product business.

In-line with our strategy, we have stepped-up our advertising and sales promotion spend, which grew 40% year-on-year in Q2. This, as you would recall, is on the back of a 21% growth that we had in Q1. The consumer response to innovations and new campaigns has been quite encouraging, and during the quarter, we also launched aggressive buyback offers to drive replacements and upgrades, and this received a very encouraging response as well.

The vacuum cleaner category continued its pivot towards convenient cleaning with robotics devices and the premium uprights and cordless vacuum cleaners, being the engines of growth. An important dimension to draw attention to, is the increased growth being witnessed in both our categories. A combination of higher activity, more innovations, premiumization and increased visibility is helping drive this growth. This, as you can understand, is and will be a helpful tailwind for us in the future.

On the channel side, growth was broad based across all channels, with particularly strong growth in e-commerce and modern trade. As you are aware, we picked up service transformation in phase 2 of our strategy earlier this year. As part of this, our focus continued on improving the customer experience, in growing our service franchise. Our AMC base expanded year-on-year, driven by more affordable segmented AMCs, albeit at a lower ASP. In addition, we strengthened our distribution and our go-to-market system for filters to tap into the non-AMC customer base. The impact of growth and the associated operating leverage was visible on all profitability parameters. On the profitability side, the adjusted EBITDA margin increased to 11.5% expanding 106 basis points on a year-on-year basis. This margin improvement was delivered despite a deliberate choice of significantly dialing up our advertising spend that I spoke about earlier. Our profit after tax grew 83% year-on-year to Rs. 46.7 crores for Q2.

As we look ahead, we will remain focused on executing our transformation strategy, drawing energy from our recent performance. With our product business continuing to grow strongly, and with the acceleration of our service transformation effort, we are confident of driving sustained and profitable growth in the periods ahead.

With that, I now hand you over to Gaurav. Gaurav, over to you.

Gaurav Khandelwal: Thank you Pratik and good afternoon, everyone. Starting off with the headline numbers:

Our revenues at Rs. 172.9 crores grew 13.6% on a year-on-year basis. Adjusted for discontinued businesses, our revenues grew by 14.7%. Adjusted EBITDA margins expanded 106 basis points year-on-year to 11.5% in Q2. Adjusted PBT grew 36.2% year-on-year and PAT at Rs. 46.7 crore grew 83.2% year-on-year. On the revenue side, product business clocked +20% growth and we continue to see broad based growth in both, electric water purifiers and vacuum cleaners. Driven by premium innovations, realizations improved, leading to both, volume and mix being growth drivers.

Growth initiatives were supported by bolt on growth investments in advertisement and sales promotion spends. In-line with our strategy, our advertising and sales promotion spends grew 40.1% year-on-year in Q2. Part of these investments are also driven by an early festive season and supporting new innovations. We intend to continue stepped up growth investments. Our Q2 gross margins at 56.3% were 111 basis points lower versus previous year. This was driven by a combination of buyback offers and channel mix. Commodity prices remained range bound during the quarter. The sequential drop in margins is a seasonal phenomenon, as witnessed in previous years also. This is largely due to the fact that in Q2, the product business has got a higher share compared to the service business. Driven by operating leverage, our expenses as a percentage to revenue, excluding ESOP charges, were lower by 217 basis points versus previous year. Our focus on cost program will continue to drive further efficiencies.

Within expenses, if I were to give some color, service charges reduced by 12% year-on-year. This reduction was mostly driven by a larger share of digital AMC's and consumer interactions happening via the digital route, and also, leakage control measures that have been taken by the company. Going forward, we will make specific investments in driving improved customer experience. Non-cash ESOP charges stood at Rs. 5.7 crores, versus Rs. 10.7 crores in Q2 last year, and Rs. 8.7 crore in Q1 FY'25. We expect ESOP charges to now stabilize at these levels. Other lines below EBITDA remained largely stable. Depreciation for the quarter stood at Rs. 7.2 crore and amortization was at Rs. 6.8 crores. It may be noted that while the depreciation charge is linked to CAPEX investments, amortization charge in the P&L is largely for intangible assets which were created as part of acquisition accounting.

On the balance sheet side, the net surplus improved to Rs. 119 crore. Trade receivables increased due to channel mix with higher growth in e-com and modern trade. There are standard credit terms in both these channels and we expect this to unwind in H2 of this year. Inventory increase was due to festive build up that were carried out.

In summary, sustained double digit growth for 4 quarters for continuing business and steady year-on-year margin improvements, despite significant bolt on growth investments, gives us the confidence in our strategy of driving sustained profitable growth. Thank you.

Moderator: Sir may we proceed with the question-and-answer session?

Pratik Pota: Yes, please.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Umang Mehta from a Kotak Securities. Please go ahead.

Umang Mehta: Thank you for the opportunity, congrats on a good quarter. So, first question was on, if you can share some ballpark growth rates in water purifier product, vacuum cleaner product and service segment, if not for the quarter, just for the first half, that would help to understand the mix growth?

Pratik Pota: Umang, thank you. Thank you very much for your question and for your wishes. As we mentioned in our opening remarks, as the results reflect, I think our Q2 performance was on the back of a very strong product growth, in excess of 20%. This growth was extremely broad based, we saw similar strong growth across both water purifiers and vacuum cleaners. This came on account of #A, volume growth, #B, the success of our premium innovation and #C, our investments that we made in driving advertising and driving visibility, of course both, on air and on the ground. The growth was, as we mentioned earlier as well, broad based in terms of channels as well. While e-commerce was the fastest growing channel, we saw robust growth in retail and in our direct channels as well. So, I would say in terms of both category as well as channel, our growth was extremely well distributed.

Umang Mehta: Sure, but mainly on the service business. So, like in first quarter you had highlighted double digit growth in consumer spends, at least that time would have continued in the second quarter?

Gaurav Khandelwal: Yes, Umang I will take the question. On the service side, we have now moved to that part of phase 2 of strategy of growing the franchise, because our focus is on replicating our experience that we saw on the product side, where you get more consumers into the franchise. So, as part of that strategy, what we have done is, that we have made our offerings even more affordable. As a consequence of that, what we have seen is our AMC base to go up. We have also seen our AMC volumes to go up, and that is something which is given us an indication that our strategy of product that worked well for us is something that should work well in service as well. So, that's how service is panning out. As you can imagine, getting more people into the franchise and the annuity business is critical, and that has come with a ASP block, which we are conscious of. But going ahead we would then say that, on a lifetime value basis, you will see this playing out in the quarters ahead. An important number I will draw your attention to is the fact that if you look at the liability that we carry on our balance sheet, which is towards the unamortized revenue, that continues to remain very, very healthy.

Umang Mehta: Understood, this is helpful, thanks a lot. I have follow-up questions; I will come back in the queue.

Moderator: Thank you. We have the next question from the line of Siddhartha Bera from Nomura. Please go ahead.

Siddhartha Bera: Thanks for the opportunity, sir and congrats on a good set of numbers. Sir, first question again, you have mentioned that the product growth has been very strong at 20% in the quarter. Some color there about, is it largely volume driven, or what amount can be volume and what can be the ASP, that will be very helpful to understand this. And some indication about now we have completed the festive season, so some indication about how the growth trends are, are some of these trends sort of better in the near term, in the festive period. So, some color there will be helpful to understand the growth momentum?

Pratik Pota: Thank you, Siddhartha, thank you for that question. On your first question, on our performance on the product business, and some color on that. I am happy to report, that both for water purifier and for vacuum cleaners, our growth was a combination on the back of volume growth as also an increase in our ASP. Let me double click on both the categories individually. In the case of water, as you are aware, we have a penetration task, that's been ongoing and that reflected in our decision to invest once again in an advertising campaign to drive awareness, and again, that led to a very strong volume growth in the water business. In addition, our premium innovation, one of them was under-the-counter product, another was the instant hot water product, both of these helped strengthen our ASPs. Our premium portfolio within water purifiers grew well ahead of the others. As a result, our ASPs improved as well. So, in water, it was a clear combination of both, volume and ASPs.

In the case of vacuum cleaners, as you are aware there is a pivot happening in the category, which we have spoken about earlier, and that is towards convenient cleaning. The category has for a long time, been driven and anchored in conventional cleaning categories, canister based vacuum cleaners and corded vacuum cleaners. In the last couple of years, and especially in the last 2-3 quarters, we have seen that pivot accelerate and this quarter, we saw growth again led by the premium segments of robotics and the handheld and the upright vacuum cleaners. Again, in this category, we were happy to see volume growth, but a much greater bias of the overall growth came from the ASP improvement. It's important to also underline, that in neither of the categories, was there a pricing led growth. We did not take pricing; it was on the back of both volumes and ASP. I hope that answers your question.

Siddhartha Bera: Yes.

Pratik Pota: Got it. On the second question that you asked about festive, you are right. Now, we've had the entire festive season behind us, and if you look at our overall performance, especially in the last and most recent period of Diwali, we saw two patterns play out. First, the growth that we saw from the Pujas to Dussehra to Navaratri period, to Diwali, there was a very clear acceleration. The growth picked up, the consumer, the footfalls in the markets, and the sentiment improved and there was a very clear uptick, which in turn reflected in robust demand during Diwali across all our channels. Once again, as I mentioned earlier, e-com was the fastest growing channel, even during Diwali and overall festive, but modern trade did well, as did our direct channel. Traditional trade, while also growing, was slower to grow compared to the other channels. So overall I would say, we are happy with the way festive has performed for us. It was a strong performance that tertiary sales were robust, and again, reflected what we spoke about earlier. There was a volume impact, and there was a very, very encouraging response to our premium innovation and therefore, the festive momentum was very positive. It's important to have a underlying in the same breadth, that given the festive and Diwali timing, a lot of the primary billing that went behind this tertiary billing actually happened in Q2, and is reflected in our performance and which we called out in our remarks as well. So, while the tertiaries have played out through and will lay out through October and through Q3, the primary has been baked into the Q2 numbers. We will now see the refreshment happen through November and December.

Siddhartha Bera: Got it, sir. Sir second question is on the schemes you have launched to drive upgradation with consumers. So, some numbers you have about what percentage of buyers would be upgrading between your product sales and any sort of data point would you have to share on this?

Pratik Pota: That's a really good question. I am glad you picked up the schemes that we have driven and a very concerted plan that we have driven to drive upgradation, to drive faster replacement. And if you recall, in earlier calls, especially last year, we have spoken about the fact that while part 1 of our agenda in water was to drive penetration, part 2 was indeed to drive replacement, and upgrades. And that's laid out this year, especially in Q2. We are happy to see therefore, that the response to our buyback scheme was very, very strong and that scheme from both, our existing installed base of users, and also from our non-user base, the competition base. Our premium portfolio did well, with almost half of the new customers who were coming in, half or more, being upgrader in our premium products. And as you can imagine, this was focused sharply on our premium products. So, our premium products actually saw a very encouraging response with like I said, more than half of the users being upgrader or people who are buying faster. I hope that helps.

Siddhartha Bera: Thanks a lot sir, that is helpful. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Naushad Chaudhary from Birla Mutual Fund. Please go ahead.

Naushad Chaudhary: Thanks for the opportunity and congrats on a good set of numbers. First, the bookkeeping sir, in the P&L our service charges this time was slightly lower year-on-year. What has happened there and is this something we should take as a new normal for the business?

Gaurav Khandelwal: Thanks for your question. The service side reduction was largely driven by two things. First is the fact that as we digitize more and more of our business, we are seeing the extent of our digital AMC sales go up, and equally our consumer interactions via digital means go up. Just to give you a data point around that, today 80% of our interactions are now happening through digital forums. Now when that happens, it obviously leads to a situation where the service charge that you are paying through the non-digital or offline route, those go down. The second thing that has happened is that, as you can imagine on a very large network, there would always be opportunities or there would always be certain areas of leakage that could arise, and those leakages are being addressed one-by-one. As we mentioned in the past, driving cost efficiency is a continuous process, and again as an ongoing process we keep identifying the opportunities that are there to keep driving efficiencies. So, that is other thing which has played out. Having said that, as we mentioned in phase 2 of our transformation, service is an absolute priority and while these efficiencies come in, it equally gives us the headroom to invest in certain customer experience initiatives, and we will make those investments as we go ahead. So, this will be a combination, as we go ahead in this journey, a combination of certain efficiencies playing out, but then part or some parts of the efficiencies getting deployed back in driving superior customer experience.

Naushad Chaudhary: Understood sir very clear. Second, on the expected BIS regulation for the water purifier. Any update on this and if that happens, how do you think this can benefit or impact to organized players like us?

Pratik Pota: Naushad that's again a very good question. And the impending BIS rollout, is very good for the industry, and it is something that will give the organized sector a much-needed boost. It will also encourage all of us to drive products that have high water recovery and therefore are far more sustainable. And I am happy to say that, all our products are and will be compliant well in time for the BIS implementation. We are aware that there's something that is a very important initiative and important area of focus for us, and our entire portfolio will be compliant and we believe, that as BIS guidelines get accepted and get implemented, this will help drive the organized sector more favorably.

Moderator: Thank you. We have the next question from the line of Anirudhha Joshi from ICICI Securities. Please go ahead.

Anirudhha Joshi: Thanks for the opportunity. Sir, the efforts that we have done, so definitely the fruits of those efforts are seen in this quarter. Just wanted to understand, how are we in terms of the market shares across the products, so what would be the performance, let's say in market share terms across the region. Then secondly, have we seen the growth broad based, is it across the regions of India, or is it in some pockets, because most of the companies are indicating weaker consumer off take, we are among the very few companies which had shown such robust performance. So, is there any particular region where we are getting this growth, or any other abnormality, or any rural, urban kind of say, like if you can share more on that. So, that is the second question, thanks.

Pratik Pota: Thanks Anirudhha. We spoke about the fact that we had a strong broad-based growth. Happy to report that it also reflected in a market share increase that we have seen in our retail business. This market share increase was evident in both, our traditional trade, and the modern trade channels. And clearly, therefore we have in the last quarter, outgrown the market. Your second question about the growth profile, was it broad based. The growth was broad based, we spoke about the category growth, which was broad based across both, water and cleaning. It was broad based in terms of regions as well, all our regions had strong growth. But amongst the regions, we are seeing the South region grow faster and again, that's something that was over index on our overall growth. In terms of town class, we saw all town classes grow, but the tier 2 and tier 3 towns and the mid-tier towns actually grew faster than the metro and tier 1 towns. And that, again, that growth pattern and profile reflects what we are seeing in other consumer businesses elsewhere, that the smaller towns have grown a little faster. So, I would say while there was uniform growth everywhere, the growth bias and the growth over indexing was #A, in e-commerce, #B, in the South region, and #C, in the tier 2 and tier 3 towns.

Anirudhha Joshi: Okay, sure sir this is very helpful. Last question, so when we had started somewhere around that time, there were 8 million water purifier installed base, and I guess we were directly servicing around 1 million water purifiers. So, where does this number stand now, in a way has that penetration of direct servicing has gone up considerably or how should we read that and where do we see this number, let's say going up to in 3 years, because we have done lot of on ground initiatives on this. So, just wanted to check with you for an update, that's it from my side. Thank you.

Pratik Pota: Thank you, Anirudhha. That's really a good question, and you are absolutely right. We had talked about a significant expansion in our installed base. Our strategy, as we discussed earlier, was to drive volumes and drive penetration and in the year 1 of our transformation strategy, we spoke about a significant volume growth that we deliver on the back of affordable Aquaguard and the advertising campaign supporting it. So, that led to a significant growth in our overall installed base. We have also seen as we mentioned earlier in the call, growth in our service franchise and our service installed base, we have separately also spoken about, and it’s there on the investor deck, about the fact that we have got access to almost 14 million first party data, and that again, as you imagine is an extremely valuable asset. So, happy to say that our installed base has grown overall, our base of AMC users also has grown encouragingly. But as you are aware, we don't give these numbers separately. We don't give volume growth numbers separately, but they both have moved in the right direction. Both are overall installed base of Aquaguard users, and also within that the base of AMC users.

Aniruddha Joshi: Okay, sure sir. Many thanks, very helpful.

Moderator: Thank you. The next question is from the line of Nandita Rajhansa from Marcellus Investment Managers. Please go ahead.

Nandita Rajhansa: Thank you. First of all, many congratulations to you Mr. Pota and Mr. Khandelwal for an excellent set of numbers. So, my questions are twofold, one is a little macro related, and the second is basically on the accounting side. So, the macro related question is that we have been hearing this, and I am seeing this in the data as well that there is a slowing urban demand overall across the country. So, I wanted to understand that whilst we have had a really good Q2 which could seasonally also be good because of the monsoon and therefore the higher consumption of water purifiers, but how sustainable is this going forward and the accounting questions are regarding increase in trade receivables and reduction in trade payables, as well as the gross margin reduction quarter-on-quarter. So, if you can just give us more color on that, that will be great.

Pratik Pota: So, Nandita thank you for the wishes and let me respond to your first question before handing you over to Gaurav for the question on receivables. You have spoken about the context where we are seeing demand challenges, and we have spoken about that as well earlier. The change that we begin to see now is that we are seeing of a greater adoption and a greater acceptance of the water purifier category, there is increased activity, there is a lot more innovation happening. There is a lot more visibility in terms of advertising and on the ground, there are more players entering. So, there is a lot of excitement, plus the fact that we in the last 18 months or so, have sustained our advertising investment in driving basic category need and relevance. All of that is reflecting in an improved category adoption and category growth rate. So that's a tailwind that's working for us, which I spoke about in my opening remarks. In addition, what we have been doing as you are aware, is being focused on driving our own penetration efforts and driving more recently our premium innovations. These have worked for us, and as we mentioned earlier, we had now 4 quarters of double-digit growth in our continuing business. Product growth have been high teens, this quarter was +20%. We feel good about the plans that we got lined up for the future. We feel good about what we have got, being getting rolled out in both Q3, Q4 and beyond. We feel that between our efforts at driving penetration, driving innovation, creating more relevance, investing as we said earlier ahead of the curve on advertising, and of course, our execution improvement on the ground, we believe that we will be able to sustain strong product growth in the foreseeable future. I don't want to quantify it and get down to numbers, but strong growth, robust product growth, we have immense confidence in being able to deliver it.

Gaurav Khandelwal: To the first question on trade receivables, we have seen from a growth profile standpoint, strong growth on the e-com side and strong growth on the modern trade side, while other channels and geographies have also grown, but the growth has been relatively higher in these two channels. These channels operate with standard terms of trade, in terms of credit that is there with major players. And hence, what you see is a reflection of those credit terms in our debtors position. So, this is something which is very, very normal. It is something which will unwind between October and November, because that is when collections fall due, and part of that is already happened in October. You will also know that this is a consistent pattern that happens every year because of the simple fact that festive is always around October or early November. So, that's the reason why trade receivables have gone up, but this is more a question of timing than anything else. The second thing is around gross margin, again, when you look at gross margins from a sequential basis, this again is something which is a function of seasonality. Q2 for us is the biggest quarter of the year and within that, the product salience goes up because there is festive selling, etcetera that happens, there is selling which is related to monsoon that happens. Given the fact that product gross margins are lower than service, there is an overall portfolio effect that happens, if I draw your attention to even, let's say last year, there was a sequential drop of gross margin that had happened, and then these gross margins come back again in Q3, once the portfolio rebalances. I will draw your attention to our H1 margins. If you look at on H1 basis, our margins are 58.2% versus last year of 58.8%.

Nandita Rajhansa: Understood. And the point about trade payables, there's been a reduction in trade payables as well?

Gaurav Khandelwal: It's just a function of, so part of our trade payables are linked to our import portfolio. So, there are certain, for example the vacuum cleaner portfolio, that supply chain is China based largely. Now, for a festive buildup, you bring in VCs, etc., and those payment terms is something where you end up giving payments. So, it is more a function of again linked to inventory which is there and its regular inventory payments that are happening.

Moderator: Thank you. The next question comes from the line of the Diya Brijwani from White Whale Partners. Please go ahead.

Diya Brijwani: Really appreciate the initiatives you all have been taking on the AMC contracts, but any metric that you can share on the renewal rates, given that the first year service is free. So, any metric that you can share on that, that would be my first question. Second is, any update, so you have mentioned on the pilot that you have been running on the rental model, so how has the progress on that been. That's it.

Pratik Pota: Thank you, Diya, thank you for the question. I will respond on your first question, on metrics linked to our AMCs and our contracts. Let me first pull back and talk about what we have seen in the service business that we spoke about earlier in the call as well. Our service strategy, to recap, has been to sort of follow the same analogous path that we did with product a year and a half ago, which is to recognize that one big barrier to our service and to our AMC and to a contract has been the high perceived cost, and therefore what we have done, as you are aware, is to offer consumers and our customers segmental and tiered AMC options to drive unit sales and unit off take, knowing that in annuity business, the more volumes we have and the more customers come up with a franchise, the better will be the revenue stream in the future. So, with that objective, we have rolled out affordable AMC's, as I mentioned earlier, we are seeing that reflect now in a growing service franchise and service base. So, that has been the first encouraging output and outcome of what we have done. That, of course as I mentioned earlier, has come at slightly lower ASP, but that was by design to drive affordability. We don't share detailed metrics of how conversions have trended, but happy to report that our conversion and you asked a question about the first-time user, our conversion metrics have improved in terms of people who were first time adopters of AMC, so people who bought the device and were into warranty, and the adoption of AMC which we have improved last quarter. We sort of don't share numbers beyond that. On your second question, the rental pilot, the pilot continues on a slow burn, and I want to, sort of talk about that a little bit, because it's a question that has been asked earlier as well, and it's a very fair question. The rental pilot continues, and it has delivered whatever we wanted to deliver, in terms of learnings, in terms of the KPI, the debate that we have internally is when to step it up and the interesting, and this is a problem of plenty in many ways, because when we are growing at +20% in a product business, we want to be careful not to de-prioritize that when we open up a new front as far as rental goes, because any such initiative will require investments, will require creating the right awareness, the right field, and folks in the field and go-to-market system. So, it's a matter of prioritization, and as of now, we are choosing to prioritize our product sales business before we scale up our rental business, that remains on a peripheral vision. But given the strong momentum, I guess just the conviction that we have in product, we believe that this is not the right time to digress and to distract our teams from the agenda by getting into scaling up rentals.

Diya Brijwani: Got it, that's helpful. Thank you.

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

Harshit Kapadia: Thanks for the opportunity and once again congratulations for a very good set of another good quarter. Few questions from my side. So, when you mentioned that premium product has been one of the major contributors, how would you define a premium product, so is it based on price point, or is it based on liter and what contribution is premium in your current portfolio, within water purifier and a vacuum cleaner?

Pratik Pota: Thank you Harshit. Thank you for the wishes and the feedback. And we have seen, as you mentioned rightly, growth come by in our premium business, the premium portfolio and while I will talk about and answer your question in detail in just a minute, I also want to underline that we saw growth in all parts of our portfolio. It wasn't just in the premium business. We saw first of all strong volume growth overall in the water business and indeed in VC. We saw strong growth in economy as well, and not just in a premium, so therefore, we were encouraged to see that the growth was very broad based. Now coming to a specific question on premium growth, and how do we define premium products. They are defined by price points, and the price points are different for RO devices and different for UV devices. In the case of UV devices, the price point that we have is more than Rs. 12,000 for UV devices, and for RO devices is more than Rs. 20,000. Any product that we have in the price band, which is like I mentioned earlier, more than 12K or more than 20K, will be defined as a premium product.

Harshit Kapadia: Okay. And what percentage right now would be your premium product in your portfolio?

Pratik Pota: While we don't share that breakout Harshit, given the fact that the premium portfolio has grown faster than the overall category average, you can imagine that this mix of premium has strengthened versus last year. And again, just to rewind the clock back a little bit, same time last year as you recall growth was driven largely by the economy segment, and we were talking about our intent to grow premium and to make sure we had a much more balanced growth profile. Now, if you look back and reflect on the last one-year journey, and of course last quarter, we feel good about the journey we have traversed, where our penetration work and efforts continue to bear fruit and give us volume growth and revenue growth, but we now have second growth engine firing for us, which is a premium innovation and the premium business.

Moderator: Thank you. We have the next question, ladies and gentlemen from the line of Anupam Goswami from SUD Life. Please go ahead.

Anupam Goswami: Sir if you can give some light, I missed some points on the service segment, and how much we are growing in that and given our newer launches, do we give any minimum sort of pre-services or a guarantee period, and where do we see the service segment as a percentage of a total revenue going forward?

Pratik Pota: Got it. So, thank you Anupam. On the service segment, while we don't give out the segmental revenue every quarter, it will be fair to say that service revenue constitutes about a third roughly of our overall business. Our service transformation agenda was picked up earlier this year. Our transformation strategy was divided broadly into 2 phases. Phase 1 was to restore product growth, and this was a business they would recall that hadn't had product growth for almost a decade. So, it was important for us to bring product growth back, which we began doing last year and very deliberately, this year, in addition to product we picked up a service transformation agenda. We feel good about the progress we have made in the last six months. I spoke earlier about the fact that we have driven now affordable AMC, we have also now picked up the agenda of targeting the non-AMC users, the installed base of customers who are comfortable, in fact would prefer not to have an AMC, and are very comfortable replacing filters as and when they need it. So, we have now bolted on our efforts by having focus on a new filter go-to-market that I spoke about earlier. So, that's beginning to bear fruit as well. So, that's now reflecting in our service segment, expanding the franchise, our AMC base expanding and strong pick up in our filter sale. Also what we have not spoken about, and it's important to underline, is that our customer experience KPIs also have improved significantly year-on-year. Our service KPIs, our service tags, our NPS numbers are far higher than last year and at lifetime highs. So, that's on your first question. On your second question, how is the whole service structured, yes, when we sell a new product, in the first year, we have a warranty that covers the first year. As part of that warranty, depending on which segment the product falls into, we either have one or we have two free service options being given to the customer, and that's part of the warranty offering wherein our technician goes to the customer's home, cleans up the filters, if any other help required, services the device and comes back. At the end of the one-year period, we then attempt to convert our customers into our AMC offering, some customers pick it up right then, some customers wait for some time, and some customers like I said earlier, they prefer not to go in for an AMC and wait for a filter change to come by. So, that's the way it's structured, the construct.

Anupam Goswami: Okay. And so this time the margin improvement, is it only because of the premium segment catching up or is there any service segment also coming up, and talking from the point of view like where we could see the margin going forward, one was the thesis that service segment will come up, and we had a lot of leakage in that segment, and also premium product, where is that strategy playing out?

Gaurav Khandelwal: So, at a macro level, the margin improvement is being driven by operating leverage. Because fundamentally if you look at, it's the near 14% growth which is giving us that operating leverage advantage, because at gross margin, at high gross margin level that plays out quite well. Because again, I would just like to reiterate that this margin improvement that you see, is after a 40% year-on-year growth in advertisement and sales promotion spends. So, it’s largely been driven by operating leverage, there will obviously on an ongoing basis, opportunities of cost efficiencies that will be kind of worked upon, but at a macro level, it is going to be operating leverage, which is the biggest source of profitability improvement.

Moderator: Thank you. The next question is from the line of Harsh from Nepean Capital. Please go ahead.

Harsh: Thanks for giving this opportunity. So, I just had two questions. Firstly, on the buyback front, how much of the buyback has contributed to our 20% product growth, and secondly on the ASP improvement, I understand that we are focusing on the broad base growth with penetration and premiumization both. But I would just like to understand what's our mix that we have in our mind given that the mix of premiumization should stand given that how the margin moves. That's the two questions I have.

Pratik Pota: Thank you, Harsh. Let me sort of start with the first question. Second question, before I come to the first question. The exciting opportunity that we have in water purifiers is that we have both a penetration task as also an upgradation task. In a category that has 6% penetration, as you can imagine, there's a long runway we have to drive category adoption and convert non-users, and towards that we remain invested in driving awareness, driving relevance, driving affordability, driving access and distribution, and that has led to a strong growth in our economy portfolio this year and therefore in our volumes, which I spoke about earlier. Equally, we are lucky to have a very large installed base of users and the average replacement cycle for water purifiers has been typically 6-7 years or in many cases even longer and that is much, much longer than what other durables typically have or have begun to have more recently. And the reason for that is the category has not driven innovations, significantly until recently. So, therefore, a big part of the strategy now is to tap into our installed base and indeed installed base of water purifier user more generally and to give them very, very differentiated and clearly different products and premium products which they can upgrade to. And that is what will lead to, and that is what we need to an ASP increase. So, our growth in the last quarter was a combination of both, of strong volume growth and water, accompanied by a higher mix of premium, which led to an ASP increase. Going forward, we expect this two-step tango to continue. We will have a focus, with an approach that will have a very clear focus on driving penetration, we will make sure that we drive affordability, we grow volumes, we drive relevance, equally however, we will remain focused on driving innovations, driving differentiation, giving consumers specific functional reasons or other reasons, aesthetics, designs, form factors, to upgrade the devices faster. So, we expect both of them to grow and which will lead to a very healthy and a balanced growth profile. On buyback, you asked about the contribution which was your first question. I mentioned earlier that we were encouraged by the response to the buyback offer, and you may have seen our press advertising that we ran across the country. We also ran a lot of digital campaigns around it. We also had television campaign running both in Q2 and more recently in October, our focus on the premium product, and that led to a very, very encouraging response from our customers. And while we don't give numbers out in terms of the adoption of buyback, acceptance of buyback, the number I did mention is that more than half of a premium device users and the buyback users actually were existing users who came in to upgrade their devices so this is, to be honest this is the first time we have done an effort of this nature at this scale. But we have always had buyback offers running in bits and pieces earlier, but with this kind of support and this kind of visibility, it’s the first time, and we have been fairly encouraged, encouraged and enthused, by the response we have received, and we intend to continue this as an area of focus for us.

Harsh: That’s all from my side, Thank you.

Moderator: Thank you. The next question is from the line of Yash from Stallion Asset. Please go ahead.

Yash: Thank you for the opportunity. I just wanted to understand just from the management’s vision perspective. So, after this transformation project is over, do you believe that the business has potential to have a significantly higher EBITDA margin maybe something like 15%, 16% for the next 3-4 years?

Pratik Pota: So, Yash, thank you for the question, and I am glad you sort of asked a more longer-term question, because really the exciting part about Eureka Forbes is that there is a here and now opportunity, but there is also a much more exciting, longer-term opportunity. This is a business with tremendous assets. We have got an incredible brand in Aquaguard and a very strong corporate brand in Eureka Forbes. We have got two strong categories, two large categories, which are both under penetrated, which are both relevant and seeing increased adoption, increased growth, water and cleaning. We have got a very large service business, we have now got a growing digital back end, and as reflected in all our digital growth, etc. So, with these foundational assets and such strong assets, we have an extremely promising and a very high growth model ahead of us. We will be a much larger business as we go forward, and we will have growth, and I am talking of the next 5, 10, 15 years. So, this is a business that we are designing and rebuilding, as we say often, for the next 40 years, building on the foundation that are being laid in the last 40. So, as we grow, as we drive innovation, as we drive penetration, one big part of that effort will also be to improve profitability. And as you can imagine, in a business with healthy gross margins like ours, as revenues grow, there will be some obvious impact through operating leverage on our EBITDA. But equally however, we have to invest back in driving category growth, in driving and supporting our innovations, and in general, just stoking both the category options. So, over time, longer term, we will grow, there will be profitability expansion, but it will be calibrated, it will be systematic, it will be step-in-step. Gaurav, you want to add to that?

Gaurav Khandelwal: One thing, I will just draw attention to the fact is that we are still literally at the end of the second year of the transformation. So, obviously, we are at a stage where there is still a very clear runway that is there and if at the end of second year, we are at some margin profile, which is, which is roughly 11.5%, then it also tells us that there is a roadmap which will take us beyond this, now where exactly it lends, time will tell. But from our perspective, again goes back to the point that with a high growth margin profile and a focus on expanding category, growth comes and with that follows operating leverage, which automatically ensures profitability.

Yash: Okay, got it. And just coming back to the previous participants question on this buyback scheme, so I just want to understand, so are you targeting existing Eureka Forbes customers and telling them that if you upgrade to like a latest model, I just want to understand how this works?

Pratik Pota: Yes, Yash. See the logic like I said earlier, is to talk to your existing users of water purifiers, more generally, not just Aquaguard and give them specific reasons, both linked to product and innovation as also supported by some financial incentives and offers and discounts to accelerate their repurchase. And so whether it is our instant hot water product or indeed, it is our under-the-sink product, or a glass SimTech product or a stainless steel product, we have specific buyback offers, different offers on different products, targeted at existing users across all channels, whether it is a direct sales channel, through direct a sales channel, or through retail or through e-commerce, we have different versions of these offers running, and as I mentioned earlier, we have been quite encouraged with the response that we received.

Yash: Right. And you will continue this offer for the rest of the year?

Pratik Pota: Sure. It will be part of the strategy going forward, yes.

Moderator: Thank you. We have the next question from the line of Rishabh Gang from Sachethi Family Office. Please go ahead.

Rishabh Gang: Thank you for the opportunity. Really wanted to appreciate your great performance and efforts from the team. I understand a good amount of growth is coming from the robotic vacuum cleaner, and we have done new product launches as well. I want to understand what are we doing and will do incrementally for product awareness as well as increasing sales, especially cross sales. Like, do we have demonstration at customers place, what is the status of this across India. And any cross-selling initiatives that you have right, especially for those people who have bought premium water purifier and any referral mechanism that you have for this?

Pratik Pota: Thank you, Rishabh, thank you for two things. One is for appreciating the performance but thank you for asking question that's very close to my heart. And absolutely right, you spotted the opportunity well. And yes, we have talked about robotics being a big engine of growth. Robotics is a category that has now grown handsomely for us for the last many quarters, and we believe that a long runway for growth lies ahead. So, what are we doing, actually before that, why robotics is growing so well, it's important to recognize the fundamentals that are driving the growth. The consumer, especially post pandemic, realized the need for an automated cleaning solution at home, just in case the domestic help was not available. And because the solution had to be automated, it had to be a convenient one. You wouldn't require, shouldn't require a lot of manual effort, and that is given two segments broadly, one is the cordless and the handheld vacuum cleaner, and the other one is the robotic segment. Robotics far more than the former. So, our attempt and our strategy in robotics is twofold, the first one is to drive robotics penetration and to make sure that there is adoption at different price points. So, one part of the strategy is to have a portfolio that straddles from economy to the premium segment. One interesting nuance in robotics is that, because it's so low in penetration and there is growing awareness, the consumer is looking for more and more premium options. So, we have just launched last quarter, a product which is a robotic device with an auto bin station, with an auto dust station. In other words, the robotic device will go, dock, get recharged automatically, not just that, the dust in the vacuum cleaner and the robotic device will get emptied and sucked into the bin and that bin can store that dust for as much as 60, 65 days. So, it needs to be emptied only once in 2 months. So, it's extremely convenient for the consumer, now that obviously has a premium price point that comes at Rs. 34,000, Rs.35,000 price point, as compared to Rs. 23,000, Rs. 24,000 which the others come at. But that has been extremely encouraging adoption, because consumers are looking for more and more convenient solutions. So, that is the attempt that we have to have a full spectrum of products, from the affordable ones which are maybe more gyro based, to the more premium ones, which are full station to dust station, which are all laser or radar based. So, that's the attempt at first of all building out a full portfolio of products. The second part, and the question you asked was spot on, how do we create a much greater awareness about these products, and how do we use our strengths and our assets, like the installed base to drive that adoption of robotics. So, for the first time, we have actually begun investing in advertising of our robotic vacuum cleaners. You would have seen in some of the leading publications, full page ads with robotic devices. We have also done a lot of work with digital influencers, and the digital marketing campaign has gained ground in the last quarter, and you will see us invest going forward as well in driving awareness of robotic cleaners. The other thing we have done, and which is building on a strength from service and from water, is offering customers an in-home demo of robotic devices. Of course, our direct sales team does that, and that's a great strength, but the same in-home demo option is available to customers even in modern trade, because modern trade, customer walks into a Vijay Sales or into a Croma and looks at a robotic device and what's an in-home demo. Somebody will go to her house, take the device, do a demo, and land the sale. Equally we are supporting our online sales efforts, so Amazon, Flipkart, etcetera with an online demo. So, we will have a live online demo happen, and if a customer wants to follow that up with a physical demo, that's an option as well. So, we are using our strengths and our assets to drive awareness of robotics. And yes, both our installed base and within that, specifically like you said installed base of premium water purifier users, that's a very, very valuable base into whom we can cross sell these robotic products. And there is work going on in that as well. So, get quite excited by the opportunity that robotics offers us.

Rishabh Gang: Also, on the AMC front, how are we tapping the existing customers for AMC which have not been with us for some time. Also, once the product is sold, the first AMC after the product warranty, it is very important, if that goes out of our Eureka thing, then the person actually becomes a customer of a non-Eureka AMC. So, how are we ensuring that the customer sticks with us post the first year of product. And just a follow up on the vacuum cleaner, do we have any after sales revenue opportunity like service or consumables in vacuum cleaners and air purifier as well. Yes, sir.

Pratik Pota: Rishabh, on your second question, the follow up question. Certainly, for both vacuum cleaners and robotics, one that you asked about earlier and also for air purifiers, we have a consumables opportunity, and the fact that we have both a direct sales network, but also a growing B2C presence, will allow us and allows us to monetize that more effectively. So, that's your question on after sales opportunity. On AMC's, you are right absolutely, the effort is to provide our customers a very, very good and a superlative experience in their first-year post purchase, which is within the warranty period, and what comprises that. First of all, post purchase, a speedy installation, making sure that the customer's expectations of installations are delivered, number one. Number two, wherever the customer has a query, and very often our new users, new adopters, have a lot of queries about the purifier, about the water and all of that, how do we address those queries, both virtually and remotely and if required physically, promptly. The third use case, or third issue is when the complaint, and very often what happens is, when the source water quality changes and becomes adverse, the customer calls and complains, so how fast we respond to that complaint will also define of course the customer experience. So, the better the customer experience in the warranty period, the higher as you can imagine is the probability of conversion from warranty to our AMC. It's important to note that the AMC adoption is not a day 1 activity, it's not as if on the 12 months first date people either do or not do, it is a continuous process, so up to 6-7 months after the end of warranty, there is a gradual adoption of the AMC, and the curve continues to increase. That's a function of various things, customers intent, time, the filters continue to work for longer, etc. So, the revenue opportunity continues for 6-7 months thereafter. And you would absolutely be right, there's a lot of work that is going on in targeting this customer, both through our business partner network and increasingly through our D2C outreach. And like I said earlier, we have seen success, and we have seen encouraging increase in conversion of the warranty users into AMC. That said, it's also important to remember that there are many customers who would not want to have an AMC and would prefer to change the filter as and when required. Now, going back to question about after sales opportunity, the interesting part, and the good part about the category, is that there will certainly be an aftermarket opportunity, because either through AMC or through filter change, there will be necessarily a need for the customer to change the filter. So, we have to do two things. #A, we have to make sure that the customer is able to differentiate our filters from the parallel market filters, the unorganized filters, and towards that we have launched a different looking filter, we have also got QR codes on those filters to allow customers to authenticate, we have also invested in advertising to create awareness, so that's one part of it. The second part of it is the distribution and the access to these genuine filters, on which as I mentioned earlier, there's a lot of work happening in strengthening our distribution and on a go-to-market and on availability, and this will require talking to the technicians outside the system as well. So, there's a lot of work that's been kicked off and is ongoing in that area. So, between a greater focus on AMC and a greater focus on driving filter sales, we believe that our service revenues going forward will be encouraging and will target the large installed base we have got, which offers a great opportunity.

Moderator: Thank you. Ladies and gentlemen, if you have any further questions, you may reach out to the company investor relations team. I now hand the conference over to Mr. Pratik Pota for closing comments. Over to you, sir.

Pratik Pota: Thank you everyone. Thank you for joining the call today. We really appreciate the questions that were asked and effort that you took to think through and ask these questions, and I hope, and I , that we are able to answer the questions effectively. However, in case there are any follow up queries, please do reach out to us, and we would be more than happy to respond. Thank you everyone, have a good day and have a great weekend ahead. Thank you.

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: This document has been edited to improve readability

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