Eureka Forbes Limited
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August 16, 2024 EFL/BSE/2024-25/35

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
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Scrip Code: 543482
Scrip ID: EUREKAFORBE

Sub: Intimation of Transcript of Earnings Conference Call held on Friday, August 09, 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 Friday, August 09, 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: 2024.08.16 11:45:03 +05'30'
Pragya Kaul
Company Secretary & Compliance Officer

Encl: As above

"Eureka Forbes Limited
Q1 FY '25 Earnings Conference Call"

August 09, 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 Q1 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 the 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: Good afternoon and I welcome you all to the Q1 FY '25 Earnings Call of Eureka Forbes Limited. During the quarter, we reported a revenue growth of 9.4% over last year with a revenue of INR 552.8 crores. Excluding the impact of discontinued operations, our Q1 revenue grew by 10.8% year-on-year. I'm pleased to share that we've now had three successive quarters of double-digit growth for our continuing business. Within this, our product business grew in the high-teens, with the growth being broad-based across all product categories.

The results of our transformation efforts on the product side are visible, with the product business now growing consistently in high-teens. Our premium products across both water and vacuum cleaners did very well, driven by our recent innovation. Our newly introduced range of water purifiers, the Blaze Insta Hot and Ambient Water Purifier and the Designo NXT under-the-counter purifier have both seen a very encouraging response.

We also saw a strong pickup of our Aura 2X product, which has a two-year filter life and which was launched online earlier. The vacuum cleaner category continued its pivot towards convenient cleaning, with robotics devices being the engine of growth. Amongst the channels, direct, retail and e-commerce all showed good growth, with e-commerce growing the fastest.

In line with our strategy, we stepped up our advertisement and sales promotion spend, which grew 21% year-on-year in Q1. In this quarter, we launched our campaign on the Stainless Steel range of purifiers. We also continued with a genuine Aquaguard service and filters campaign to educate consumers and protect them from fake AMCs and filters.

Service is a key priority as part 2 of our transformation efforts. Our early interventions have led to AMC volume growth coming back and also led to a significantly improved customer experience and improved customer satisfaction scores. In Q1, our service business did well, with revenues growing by double-digits.

While these are encouraging early outcomes, I must say that there are several initiatives underway to drive superior customer experience and higher growth. On the profitability side, adjusted EBITDA margins continue to expand on a year-on-year basis and margins were at a lifetime high of 11.5% in Q1, up 166 basis points over last year. This margin improvement was delivered despite a deliberate choice of significantly dialling up our advertising and sales spend that I spoke about earlier.

Looking ahead, our focus will remain on executing Phase 2 of our transformation strategy. Our experience and our results so far give us the conviction that we have the right strategy and a strong set of plans to drive sustained and profitable growth in the future.

With that, I want to hand you over to Gaurav for his remarks on the Q1 performance. Gaurav.

Gaurav Khandelwal: Thank you, Pratik, and good afternoon, everyone. In the backdrop of consumer wallets being diverted towards summer products, our revenues at INR 552.8 crores grew 9.4% on a year-on-year basis. Adjusted for discontinued businesses, our revenues grew by 10.8%. Driven by a larger share of premium portfolio, realizations improved, leading to both volume and mix being growth drivers. Growth was visible both in electric water purifiers and vacuum cleaner products, and also in our service revenues. In line with our strategy for Phase 2 of this transformation, bolt-on growth investments were stepped up.

As an example, our advertisement and sales promotion spends grew 21% year-on-year. We intend to continue such investments. Our Q1 gross margins at 60.5% were largely in line with the previous year. Prices of certain commodities showed an upward trend in June month. It remains to be seen if these trends will continue. Our expenses as a percentage to revenue, excluding ESOP charges, were lowered by 156 basis points versus previous year.

Our focus on cost program will continue to drive further efficiencies. Non-cash use of charges stood at INR 8.7 crores versus INR 9.2 crores in the previous quarter. Other lines below EBITDA remained largely stable. Starting this quarter, we have also started providing additional visibility by separating our depreciation and amortization lines.

Depreciation for the quarter stood at INR 6.9 crores and amortization was at INR 6.7 crores. It may be noted that while the depreciation charge is linked to capex investments, amortization charge in P&L is largely for intangible assets created as part of acquisition accounting. This quarter was unique in terms of all three profitability matrices of EBITDA, PBT and PAT margins being reported at lifetime high levels. Adjusted EBITDA margins at 11.5% grew 166 basis points year on year. PBT margins pre-ESOP grew 219 basis points to 9.1% and PAT margins expanded 186 basis points to 6.8%.

In summary, in relatively challenging market conditions, we have been able to sustain top line growth across the portfolio, step up growth investments and been able to achieve lifetime high profitability levels. Thank you.

Moderator: Ladies and gentlemen, 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: Hi Sir, thanks for the opportunity and congrats on a good set of numbers for the quarter. My first question is again on the revenue side, so you correctly highlighted that we have seen shift in spends to other categories. So just wanted to check as some of the aberrations probably have normalized now, as we go into the year, will it be possible to show some colour on how we are looking at the demand? Is there any further pickup? We are seeing at the ground level and the initiatives we have done, how, if you can throw some light there first?

Pratik Pota: Yes, Siddhartha, thank you for that question. And as you saw in the numbers and as I mentioned in my opening remarks, we've had a quarter with a near 11% growth in our continuing business. Within that, our product business grew by the high-teens. And our service revenues also were up double-digits. This was in the context, like you rightly mentioned, of an extremely challenged quarter in terms of both the summer and overall demand sentiment.

Let me talk about the summer. And you mentioned that you've seen that across all the reported results as well. There was clearly a huge demand for cooling products, for air conditioners and the others. And they saw a huge surge. But in the durable space, other than cooling products, the demand sentiment was muted. As we look at the period ahead, we do not see the demand sentiment changing materially in the short term.

I think the food inflation being persistently high has dampened sentiment, the demand sentiment, consumer sentiment. That said, I think we have strong set of plans that we have deployed already. And you saw that even in the peak summer period of Q1, we were able to deliver strong product growth in high-teens. So notwithstanding the demand sentiment, I think we are focused on executing our own plans in terms of driving products, driving innovations, driving a superior customer experience.

Like I said, the service transformation projects that are underway, the early results of which are already encouraging, but more remains to be done. So I would say, yes, the demand environment could be brighter, could have been more encouraging. But we are confident of delivering on our strategy.

Siddhartha Bera: Got it, sir. And in terms of the mix, like you mentioned, that we have started seeing ASP improvement as well. So any colour, how much is the premium mix in the portfolio now? And given the launches which we have recently done, so that we can get some sense that it can see more improvement and can support our value growth?

Pratik Pota: Siddhartha, you're right. I think the one interesting feature, encouraging feature of this quarter's performance was, I think, the increase in the ASPs. And let me talk about the categories separately. In the case of water, we saw the ASP improve and increase on the back of our premium innovations. And as I mentioned, all of them have been very, very interesting and very encouraging consumer response. I think on VCs especially, as we have seen the category pivot continue towards convenient cleaning.

And as you can imagine, the convenient cleaning segment comes at almost a 4X ASP higher than the conventional cleaning ASPs. So as the category mix evolves and moves towards convenient cleaning, both robotics and upright vacuum cleaner, we are seeing the ASPs improve. And the ASP improvement, as you can imagine, has been the most pronounced within vacuum cleaners as compared to the other categories.

We expect this to continue, this trend to continue of convenient cleaning growing and becoming a bigger and bigger part of the portfolio mix in the future. Equally, in water, there will be both the bookends growing. We will grow the premium segment through innovations and through point-of-sale innovations and interventions.

There will also be a lot of effort in driving penetration. So I would say the ASPs will be, I think, up, but will be range-bound in the case of water. But you will see that ASP improvement continues significantly in vacuum cleaners.

Siddhartha Bera: Got it, sir. So last question on the margin side.

Moderator: Sorry to interrupt. We may request that you return to the question queue. The next question is from the line of Umang Mehta from Kotak Securities. Please go ahead.

Umang Mehta: Yes, thank you for the opportunity and congratulations for a good quarter. Sir, you mentioned that continuing business grew by 11%, products grew by high-teens, and service in double-digits. So, this high-teens growth in products, is it volume growth? I mean, just trying to understand why is value growth at 11%?

Pratik Pota: Yes, thank you for the question, Umang. Just to clarify, the high-teens growth that I spoke about is in terms of gross revenues. So, it is in terms of net revenues and reported revenues. So it is a revenue growth that I'm speaking about. I think what you see as sales numbers reported at 11% is a combination of this high-teens growth of products and a double-digit growth in service.

However, what happens, when you look at the accounting treatment of service revenue, I think there is a lag between the reported revenue and the actual gross revenue. I think that's pulled down the overall reported revenue growth. But on a realization basis, on what customers spent, we grew high-teens in products and double-digits in service.

Umang Mehta: Thank you. And just a related question to this was, so service charges, the percentage of sales has seen a decline. Were there any specific drivers to this?

Pratik Pota: I'll start, and I request Gaurav to come in and add. So, I think, first of all, Umang, just to once again reiterate that our transformation efforts on service albeit the early efforts are showing some encouraging results. And the service business grew by double-digits during Q1. I think the service revenue and the revenue charge that you see, the service charge that you see going down in Q1, there is a seasonal element to that. And if you look back at the prior periods as well, you can see that the service charge and the reduction in service charge mirrored almost last year's trend. I think in addition to that it should see some impact.

I think Q1 also saw a reduction in our call center charges. And on account of our digitization efforts more of our calls and more of our transactions moved online. I think there was also some savings on account of efficiencies that we were able to extract. I think also on account of our improvement in service delivery, we saw a reduction in the number of calls we received. I would say those were the big reasons, but Gaurav can add to that.

Gaurav Khandelwal: I think I'll add one more element. Because when you see from a year-on-year perspective and service charge going down as a percentage to revenue that's also a function of the fact that the product business has grown faster. High-teens growth for product is higher than the overall reported revenue. So it is that part which is playing out as well. Our focus in the phase two of our transformation will be very much there on driving up service revenue. Plus, efficiency measures on our service charge will continue. Service charge, as we mentioned in the past is a combination of what we pay for AMC revenue but equally what we pay for various items like call charges, call centers, etcetera.

Umang Mehta: Understood. Makes sense. Thanks a lot and good luck for the rest of the year.

Moderator: Thank you. The next question is from the line of Ashvin from Marcellus. Please go ahead.

Ashvin: Thanks for giving an opportunity to ask a question. Pratik, again, just staying with that, you said that there is a high-teens growth in product revenues. Is it possible to get the volume and realization split within that? Maybe you can say it's largely volume-driven or it's a mix of realization-driven.

Pratik Pota: Let me separate volume and the value piece so that it gives more color. Let me start with water purifiers. Water purifiers, we delivered a double-digit volume growth and this continued our trend of the earlier period when we had sustained volume growth and double-digit volume growth. And of course, as I mentioned earlier, on account of the improvement in our premium portfolio and innovations, we also had an increase in realizations.

And therefore, the net revenue growth is translating into a high-teens growth. In vacuum cleaners, the volume growth was more muted because as you can imagine this is a category pivot happening, a structural change happening. The more premium segments are going much faster. So, in vacuum cleaners the growth was much more led by ASPs and realization. And volume growth was muted there compared to water. I hope that gives you more color.

Ashvin: Yes, and Gaurav, is it possible to get what is the accounted service revenue growth Y-o-Y, service revenue which has been accounted?

Gaurav Khandelwal: So, Ashvin, we don't share that revenue separately but I'll give some more color. One, the gross revenue that is recorded basically what the consumer is spending that has seen a double-digit growth. So, that's one element.

The second is that, as you can imagine, AMCs have a fairly long tenure. The average tenure is anywhere between 18 to 20 months. So, hence, the amortization happens over a fairly long period of time. And hence, it will take three to four quarters for this to start getting reflected in the reported number.

Ashvin: Just one last question, if I can. Pratik, you introduced a product called Aquaguard Enhance NXT, I can see in the slide, wherein the service seems to be bundled with the product. Is my understanding correct? And why is that the case? So, is there some challenge around services that we are finding and hence, we are trying to bundle it with the, basically, giving a two years warranty or two years AMC free with the product?

Pratik Pota: Thank you for the question, Ashvin. I think the product you're talking about is Enhance NXT, like you said, which has got a two-year filter life. Now, our filters normally last for one year. This one is innovation, where we've given a two-year filter life product. The reality is that there are different consumer segments and people have differing requirements from products. A case in point being under-the-counter products that you see also in the same slide, where people are looking for modular kitchens and looking for under-the-sink purifiers.

Similarly, consumers are looking for a lighter touch, like a service touch for the purifier with longer filter life. So, this is just a response to different consumer segments and ensuring that we are catering to all of these consumer requirements. It is not a response to any challenge that we saw in terms of service. It was just to tap into an opportunity that we saw.

Ashvin: Okay, I will come back in the queue. Thank you.

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

Harshit Kapadia: Hi, thanks for the opportunity and congratulations once again for a good result, sir. Just a couple of questions from my side. Just wanted to check on the competition side. I believe one of the MNCs has acquired and probably they may get more aggressive. Any color that you think, do you think there is a space that is there for players like them and could that impact our strategy? If there is any color you can share. And secondly, on the capex, if you can give us a sense, what should be FY '25, '26 capex that you are looking at that would be helpful.

Pratik Pota: Thank you, Harshit. I'll start with the first question the response to that and then Gaurav will pitch in with the other one. I think on competition, I think this category needs more competition, it needs more innovation it needs more excitement to drive growth and to get consumers to re-evaluate this category to enter it.

So we welcome all competition including the ones that you referred to. I think the fact that our performance in the last one year the improvement has happened in the face of intensifying competition give us that conviction that we have the right set of plans to deal with any competitive headwinds that we may encounter. I think that this category is not about competition, Harshit, as you can imagine.

This category is all about unlocking penetration and getting a much larger share or larger number of customers across cost strata, across different consumer segments to enter the category. So we welcome all competition and I think that would be good for the category and to grow the category. Gaurav?

Gaurav Khandelwal: Harshit, on the capex side, we are expecting for this year a capex of anywhere between INR 45 crores to INR 50 crores. Our capex, if I look at the years gone by was focused largely on digitization and innovations. While that continues, we'll also keep investing on areas like R&D, etc. But we expect the year to end somewhere between INR 45 crores to INR 50 crores.

Harshit Kapadia: Understood. Fair enough. Thank you and wishing you all the best.

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

Parikshit Kabra: Hi. My first question was actually just a recap of something that you mentioned but I couldn't quite comprehend. Is that in the services business, you're seen as double-digit revenue growth but you said that something would materialize over the next 3 to 4 quarters. Could you repeat that part?

Gaurav Khandelwal: So, Parikshit, what happens is that service AMCs are for a particular tenure and service AMCs are sold for either a 1-year period or a 2-year period or a 3-year period. Now, depending on the mix, what happens is that the revenue gets amortized during the tenure of the AMC. Typically, in our case, the average tenure of an AMC ranges anywhere between 18 months to 20 months.

Hence, what happens is that the AMC that you sell, for example, in a particular quarter, the revenue of that gets amortized over 18 months to 20 months. However, the cost for acquiring that AMC, that cost entirely comes upfront. So, hence, what I was mentioning was that in a particular quarter, if I sold an AMC and it's showing a growth in terms of the absolute number of AMCs sold, the revenue of that since it gets amortized over an 18 months to 20 months period, the reflection of that comes with a lag.

Parikshit Kabra: So, the revenue gets recognized over a time period, but the cost gets recognized immediately. So, in some sense, the number is showing more compressed than it is actually.

Gaurav Khandelwal: One can say in some ways.

Parikshit Kabra: Got it. And I apologize if I'm asking this. If you've already made some revelations about this, I joined a few minutes late. Are you in a position to reveal your ad spend, your advertisement and marketing spend now, or do we still have to wait for the Annual Report?

Gaurav Khandelwal: Parikshit, we'll have to wait for the Annual Report. I think what we can, however, share is the fact that one, in this particular quarter, our advertisement and sales promotion spend are up 21% year-on-year. Equally, what we can share is the fact that we will stay the course on increasing our growth investments.

But the most specific number for the year FY'24 is something which will come up in the Annual Report. But directionally, one can assume that our spends in FY'25 will be a step-up over those levels.

Parikshit Kabra: And the last thing I wanted to understand is that since we saw, in terms of revenue, in the water purifier segment, we saw mid to high-teens. In the vacuum segment also, I think you said double-digit. And in services also, it's double-digit. So what has, what is the blended average which should be somewhere around 14 revenue growth or 13 or 14 rather than being at 11?

Gaurav Khandelwal: Yes, Parikshit, the only reason for that why the blended average turns out to be lower is because of the fact that the service revenue is amortized. So since the service revenue is amortized over a longer period of time, that revenue upfront is not coming in and service is only 30% of our business. So what effectively happens is that on a 30% part of the business, since that revenue is deferred over a period of time, we don't see that impact.

Parikshit Kabra: Perfect. I understood. Last question. Have we seen a gain in market share for water purifiers?

Pratik Pota: Yes, pretty static report that we have seen a market share gain in water purifiers versus same time last year. And I think the good news is that we are beginning to see the impact of our premium innovations kick in. This is early days yet. We expect that to intensify as we go forward. But even in this early sort of results, we are seeing the market share improve, especially through the premium segment.

Parikshit Kabra: Alright. Thanks a lot.

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

Rishabh Gang: Yes. Thank you for the opportunity. So I wanted to understand like we are building products at the lower end of pricing spectrum, right? So that would increase the penetration for the product. So how has the trend been there? How many first-time users are using our product? And what is our outlook on the after-sales service from these low-priced purifiers? Yes, sir.

Pratik Pota: Yes, Rishabh. No, I think it's a good question. And I would agree that our strategy, one of our strategic pillars is to drive the penetration of the water purifier category. You would know that the penetration of this category is only about 6% in the country. And the opportunity is immense.

And there are many things we are doing to drive penetration, including launching affordably-priced Aquaguard products like we have done last year. And that has been driving the growth for us in the economy segment for quite some time. And I think the good news and encouraging part is that more than 75% of customers who enter, who buy economy products, are first-time users.

That said, we also have the strategy of driving premiumization because a lot of customers, of Aquaguard, for many years ago, are due for a product replacement and an upgrade. And it's important that we give them a reason to upgrade and to replace the product. And therefore, driving premium innovation through differentiated functional benefits, design, etc. becomes a way of encouraging that replacement. So we are seeing both parts of the portfolio grow, the economy, as also the premium segment.

In terms of the aftermarket opportunity, I think the good news is that if you look at a slightly longer-term for our customer, the lifetime value of a customer will be significantly higher than, of course, the entry value and it will be symmetric across all parts of the portfolio. And our AMC proposition that we have launched last year, it's a combination of, a platinum-priced AMC for the premium products and for the customers who can afford it, plus also a very affordably-priced base AMC.

We've also launched a more affordable AMC for economy products earlier this year. So the idea is to make sure that we are relevant and accessible and affordable for all consumer segments, both in upfront product purchase and as also in the AMC, the aftermarket.

Rishabh Gang: So, for the low-priced purifiers, are we locking the device that it cannot be serviced by someone non-Eureka Forbes? Also, how do we compare on pricing for AMC with the unorganized player, right? How much alpha do these guys still have in front of us in terms of our affordable packs? How cheaper are they still? Yes.

Pratik Pota: So on your first question, Rishabh, we have ways of authenticating fake filters and therefore we are able to alert our customers if a fake filter is being used or a non-Aquaguard filter is being used. So we have ways of authentication and that helps us ensuring that we get a much larger share of the replacement market, when it comes to changing the filters. I think, on the grey market, while there is this perception that the parallel market gives much cheaper service, that's not necessarily true always.

And customers very often avail of parallel market AMCs and service without being fully aware that they are availing of a non-Aquaguard service, which is why the campaign that we've run recently about educating consumers about genuine Aquaguard AMCs, which is why we've launched our filters with a new design, which have a QR code, which allows customers to authenticate. Those are all steps toward helping customers make an informed choice when they replace their filters or go for service.

Rishabh Gang: I wanted to understand more on what is here going to be a go-to market strategy for the rental model. And how does your on-ground presence differentiate you from other players in the rental model?

Pratik Pota: I didn't hear that first question, Rishabh. Was it about rental?

Rishabh Gang: Yes. Like, what is going to be a go-to market strategy for the rental model? And how can your on-ground presence, right, which you have better than other brands, can differentiate you in the rental model? Yes.

Pratik Pota: Yes. Rental, as we've been saying, in our earlier calls as well, remains an area of opportunity that we are watching closely. And it's an area where we believe we have a right to win. We have not scaled up a rental project yet. It is in pilot, we are looking at it closely. But it's a question of prioritization when we decide to scale this up. From your second follow up question, I think we are clear that our legacy strength, whether it's a strong brand that we have in Aquaguard, whether it's a nationwide service network that we've got, whether it's our growing digital presence, all of these are very, very strong and enabling strengths that will allow us to drive the rental business when we decide to enter it.

Keep in mind, however, that our product business is already growing into high-teens. And we want to make sure that we have no distraction or no lack of focus in driving our portfolio growth. Rental, we remain open to the opportunity. And when we get to it, we are sure we will have a right to win.

Rishabh Gang: What do you think about the B2B business?

Moderator: Sorry to interrupt. We request that you return to the question queue for follow-up questions. The next question is from Siddhartha Bera from Nomura. Please go ahead.

Siddhartha Bera: Yes. Thanks for the follow-up, sir. Sir, again, I mean, I wanted to just finish this gross margin question where we have seen flattish on YoY basis but slightly down sequentially. So is it more of a seasonal phenomenon that we have seen a bit sequentially? And in terms of going ahead now with more premium products in our portfolio which probably have a better gross margins and service also sort of becomes a bigger part of the revenue, so maybe a couple of quarters down the line because of the accounting issue. Can we expect improvement in the gross margins as well going ahead?

Gaurav Khandelwal: Yes, Siddhartha well, I'll take it one by one. First, from a year-on-year perspective, you see a gross margins to be largely at the same level, so no real difference there. 60.4 to 60.5. And again, on a sequential basis, what you see is actually an increase. So from a Q4 59, we are actually at 60.5, so it's not a drop, it's actually an increase sequentially. So that's one point. The second coming to the outlook of how we expect the gross margin to go, first stepping back on a more structural basis, we are not looking at any reset of the gross margin table.

We believe we have the portfolio width which allows us to straddle both the economy segment and the business segment, and the best manifestation of that has been the last five quarters where volumes have grown, yet gross margins have remained range-bound. Coming more closer to outlook, for us as a business, Q2 is usually the highest quarter for the year. Q2 is also a quarter where our gross margins go down a bit.

That's largely because of the fact that our AMC revenues are higher in Q2, and going back to the point I was making earlier that the cost for that come upfront while the revenue gets spread over a period of time. Hence, even if you look at last year, Q1 to Q2 will be a gross margin drop, and the same trend will continue this year as well. Having said that, it's just more a question of timing more than anything else, and you know it again reasons back from Q3 onwards, so we expect the same phenomenon to continue this year as well.

One last thing that I would call out is the fact that what we've seen in the month of June in particular are in the case of certain commodities like polymers, we've seen prices go up. It's still at a stage where we are in a bit of a wait-and-watch mode to see whether this sustains or not. That could be one additional driver as we go along, but I think it's still a bit of a wait-and-watch there.

Siddhartha Bera: Got it, sir. Thanks a lot.

Gaurav Khandelwal: Thank you.

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

Harshit Kapadia: Hi, thanks for the opportunity. Just wanted to check, would you be able to give us a sense on region-wise growth or even tier-wise growth in terms of plus tier-1, tier-2? Have we seen a double-digit volume growth across each of these segments as well?

Pratik Pota: Thank you for that question. I think the good news is that our revenue growth across regions was in double-digit and all regions grew well. And there was no specific reason that was an outlier when it came to growth. In terms of town-wise growth, again, all town tiers grew, but what was an interesting sort of nuance was that our Tier-2 and Tier-3 towns grew faster than the tier-1 towns in metros. But all towns had good growth.

Harshit Kapadia: And would it be right to say that economic growth grew faster in the Tier-2, Tier-3 towns than the premium?

Pratik Pota: I think it's a combination of various things. I think, first of all, the fact that we have, like you said, the economy range, that's done well. That's done well in the smaller towns especially. I think the other part is that our premium innovations are also doing well in the small towns. One interesting data point is that robotics is seeing as much traction in the smaller towns as it is seeing in the larger towns in metros.

And I think the smaller towns are increasingly adopting and are open to premium innovations as well. So it would be fair to say that while economy certainly drove growth in the smaller towns, we had premium also showing encouraging growth.

Harshit Kapadia: Fair enough, Good to hear. On the service part, we were looking to tap consumers who had Aquaguard products but were using service from third parties. Has that shift also been the one reason where we have seen shift? Or is it because our base of product was going hence the service grew?

Gaurav Khandelwal: Harshit, the line was a bit not clear but can you just repeat the question. Your question was around whether we are seeing a shift from grey market on the service side. Is my understanding correct?

Harshit Kapadia: Yes, the shift that we were all looking at from somebody who has a Eureka Forbes product but was using third party consumer. Was that also one of the triggers which actually grew service revenue or it was only because the base is increasing hence our service is growing?

Pratik Pota: Harshit, I think it's an interesting question and going back to what we've been saying earlier. I think the reality is that we have a very large installed base of Aquaguard users of which a relatively smaller share and proportion are part of an AMC offer and AMC ambit and therefore the opportunity of tapping into the rest of the installed base is immense.

And towards that we pulled out a number of initiatives that we spoke about and that you're aware of whether it's tiered AMC to make sure we are feeding a relevant large cross section of users or whether it is the advertising campaign about informing customers about genuine Aquaguard service or the grey filters that we've launched, the differentiated filters with a very clear QR code which allows customers to check and verify and authenticate for the genuine filters. All of these are steps towards that direction.

I think the good news is that these results or these steps are beginning to show some early results and we are seeing awareness about our genuine filters grow. We are hearing evidence of customers asking technicians for filters with QR code authentication. We are seeing many more inquiries about these filters and genuine service amongst our business partners and call centers and so on.

But I think most important to recognize is that these are still very early days. As I mentioned in my opening remarks are the phase 2 of transformation will involve some heavy lifting around services and ensuring that we are able to tap into the very large opportunity that we spoke about of this installed ways of users who are not availing of Aquaguard service and many projects are underway and that we hope to give us a result and if I have to draw an analogy a year and half ago when we met many of you and we would talk about our performance we have shared with you that we were not seeing volume growth or any growth for a matter on products for long time.

As you have seen in the last 12 months to 18 months we went from having strong volume growth to now high-teens overall products revenue growth. We believe and it is our conviction that the same trajectory will repeat in service as well as the full impact of transformation becomes evident.

Harshit Kapadia: Very nice, sir. Good to know and wish you all the best, sir. Thank you.

Moderator: Thank you. The next question is from the line of Pallavi Deshpande from Sameeksha Capital. Please go ahead.

Pallavi Deshpande: Yes, sir. Thank you for taking my question. I just wanted to know is all the investment on the app side done because I still have problems when I try to use the app.

Pratik Pota: No, Pallavi, thank you for that question. And separately I will touch base with you and understand what problems you are having in the app because I would love to understand more about it. But if I take a step back and respond to your question, I think the one step that we took in Q1 of this year was to significantly improve our customer experience, our UI/UX on our app.

And this has helped in making the customer journey on our app a lot smoother, a lot more friction-free and that's reflecting in the increase in our rating both in the Play Store and App Store and that's moved up significantly. I mean, we used to be below two earlier obviously not a very good score. We are now up to 4.2 rating on both iOS and Android. So, it's a reflection of the improved user experience.

Also, I think as the new app has availed that has got rolled out, more and more of our customer engagements have moved online. And almost 80% of our customer engagements now are largely through apps and a little bit through our website. So that's a reflection again of much better adoption of our app.

Our installed base of app users also is growing significantly and it grew last quarter as well. So I think those are the interesting and encouraging developments and lead indicators about our app. But to answer your question this is just the beginning and there's a lot of work that's happening in strengthening our digital play.

As an example, while the first part was about improving the service experience, we have just recently as you can see about a week ago, rolled out our website for product commerce which completely transforms the product commerce experience on our website. And I would love for you to speak and share your feedback because this is something that we believe will help us drive our D2C revenues as we go forward.

Digital is an area Pallavi, I'm sure you understand where you would never say that investment is done. It's always WIP as we learn from our customers, as we look around us, find new areas for us to tap into to improve our customer experience, to improve customer revenue realizations and drive efficiencies, improving sometimes even the employee experience. So, this will remain an area of focus for us as we go forward.

But again, just to conclude we will reach out to you separately and get your feedback on your app experience. You at least share your phone number, we will meet up from you separately and we would love to hear from you.

Pallavi Deshpande: Yes, I agree with that. And I mean somehow I feel somewhere maybe it is this deficiency which is driving the product revenue growth. It's simpler to buy a new Aquaguard than to get the one you have serviced, just a side thought?

Pratik Pota: Simpler to buy a new Aquaguard than I didn't hear that.

Pallavi Deshpande: No, I mean, it's just simpler to buy a new Aquaguard than to get the one service, maybe one reason for the high product revenue growth?

Pratik Pota: No, Pallavi, those are harsh words. I take your feedback though, your implicit feedback about our service experience. But let me hasten to add, I think it's important for me to clarify, even as we reach out to you because obviously you've had some experience which has not been very positive, we'll reach out to you separately.

But let me clarify and let me place on record. There are customer satisfaction scores, our NPS, Net Promoter Score across complete dissolution, across first-time installation or across doing the regular maintenance, the regular service. Our NPS has never been higher. Our lifetime high NPS is what we reached in Q1 well above what we had in Q1 at the same time last year or indeed above the recent year of Q4, number one.

Number two, we are seeing a significant number of complaints getting closed within one hour of either the customer facing the complaint or the customer's desired time of resolution. So I think overall our service levels have improved significantly. Our product growth coming back to your comment is driven by a number of things. I responded to some of the earlier questions about penetration. So, we had a range of economy products that we launched last year that drove the growth in economy and drove penetration.

We also have done a lot of work on innovation, premium innovation which is head drive growth. And if you now go to the store and I would love for you to see our product, our premium innovations, you will see that they are clearly the best in class, whether it's a Slimtech RO or Slimtech Glass which is RO and UV both or indeed it's a Blaze Insta which is Insta hot plus ambient temperature water or an under the counter product.

There are a number of innovations that we can talk about which are helping drive growth and helping drive share. So I take your feedback and once again we talk with you offline to hear more about it and make sure that we are satisfying with you like we have satisfied many of our customers.

Pallavi Deshpande: Second, just on the core ROIC what's the long-term target for the ROIC for the company five years down the line?

Gaurav Khandelwal: Pallavi your question is around long-term targets on ROCE or overall?

Pallavi Deshpande: Yes ROCE.

Gaurav Khandelwal: So I think one key feature of our business is the extremely high ROCE. It is a business which doesn't require a lot of capex. I spoke about our capex for this year being somewhere in the range of INR 45 crores to INR 50 crores and our profit levels will be going by what you've seen. I think that's going to be higher than that. So this is fundamentally a business which is very high on ROCE and that is something that we intend to preserve. This is not a business which requires a lot of capex.

Even if I look at the volume growth that we've had, it's not required any significant investments on the manufacturing side. Our capacities are adequate to cater to it and I think we'll stay close to our value creation model which is essentially about three parts. One, remain a very, very significant leader in a much larger TAM.

The expectation is that the categories in which we operate will anyway be between INR 23,000 to INR 24,000 crores in five to six years' time. Second is margin expansion, more through operating leverage and efficiency and third is this translating into cash and this for us is the value creation model that we are working on and we intend to preserve this as a high ROCE level.

Pallavi Deshpande: Lastly, on the utilization of cash.

Moderator: I am sorry to interrupt ma'am. We request you to return to the question queue for your follow-up questions. The next question is from the line of Srinarayan Mishra from Baroda BNP Paribas. Please go ahead.

Srinarayan Mishra: Yes, hi. Thank you for the opportunity. Am I audible?

Pratik Pota: Yes, we can hear you.

Srinarayan Mishra: Yes. So, my first question was on the services. So, are lower-priced services, are they helping to drive our product sales in terms of the filters? Are they helping?

Pratik Pota: So, Sri, your voice was a little muted, little muffled, but I think I heard your question. Let me respond, and if I haven't answered it, please come back. I think the segmented AMC offering that we did, we launched last year, had a suite of AMC options for our customers from affordably priced base AMC at INR 599 all the way up to platinum AMC.

The fact that we drove this plethora of choice for our customers and segmented choices for our customers has helped us drive AMC adoption and helped us drive AMC growth. And as I mentioned in my opening remarks as well, we have seen a growth in the number of AMCs sold, and that is, we believe, one reason for that is this segmented AMC launch. Is that helping us also drive our product sales?

And by product, you mean device sales? We believe that over time, most certainly it will, because for the consumer, the high total cost of ownership has been a barrier in entering the category, and defined as both the upfront cost of the device itself and the recurring cost of service. Every research that we've done has shown us this.

So, as we drop and as we make our products more affordable, and as we give customers the choice of various AMC options, it will certainly drop the total cost of ownership, which in turn will drive penetration, which in turn will drive the new category adoption, and of course therefore drive growth.

Srinarayan Mishra: My question was in terms of the filters, are we able to sell through the filters to these lower priced AMCs? That was my question.

Pratik Pota: Got it, got it, Sri. Sorry, I misunderstood that. Yes, to respond to your question, you're absolutely right. We cater to this customer opportunity in two ways. One is we attempt to convert this customer to an AMC, and in that AMC, we have, like I said earlier, those different multiple choices where the customer can opt.

Equally, we also give customers the choice of replacing the filter without necessarily adopting the AMC, and happy to report that we also are seeing very, very encouraging growth in our filter business, enabled also by the work we've done on our filters, which is to make sure we differentiate our filters, they look different, they have a QR code which we can use to authenticate the filters, of course the advertising campaign that I spoke about.

So all of this is a very, very convergent, very, very congruent effort that we are mounting to make sure that we drive awareness about a genuine service and a genuine filter to appropriate a much larger share of this lifetime value of the customer.

Srinarayan Mishra: And sir if you can give some color on the EBITDA margins for services business?

Gaurav Khandelwal: Yes, we don't share the numbers specifically for the service business, but what I can share is the fact that the profitability for the service business is obviously higher than the product business, as you can imagine would be the case for any service that you see.

Our priority there is to make sure that how do we keep driving superior customer experience, because our belief is that that will finally lead to more lifetime value getting created. Our priority in service is to get more and more people into the AMC fold, and what we've seen in terms of our AMC growth that is giving us early signs of encouragement.

Equally, while we have the moat of our service margin, we are equally focused on making sure that the product business profitability also keeps going up. So we don't intend to plan our business profitability only on service, but for each part of the business to be profitable in its own right.

Srinarayan Mishra: Just last question, if you can take. So between RO and UV, which of these two products is growing faster?

Pratik Pota: So, Sri, I think clearly given the deteriorating water quality across the country, we are seeing the RO segment grow faster. I think what makes the RO segment more attractive to consumers is that there is often inconsistency in the source water and the source water quality. So if a consumer is assured of municipal water right through the year with a certain low TDS, then the customer would be happy to go for a UV device.

But because the water source changes, leading to very differing input TDS amounts, customers prefer to play safe and go for a device that's either RO or RO plus UV. So overall as a category, RO is growing faster than UV.

Srinarayan Mishra: That's it from my side. Thank you so much for today.

Moderator: Thank you. The next question is from the line of Avinash Nahata from Parami Financial Services. Please go ahead.

Avinash Nahata: So, three questions. The first is, what is the unamortized, unrecognized amount sitting in the balance sheet as a part of service revenue which is not recognized?

Pratik Pota: Okay, why don't you finish all three questions please and we'll come back to all the answers.

Avinash Nahata: Okay. What is the seasonality across our three products, whatever anecdotal data have based on that, and what percentage of our product sale was accompanied by AMC?

Pratik Pota: So let me start with the third question and then we'll go in the reverse order. The proportion of bundled AMCs upfront is very, very low. And I think if you think about the point I made earlier that one of the barriers that the customers face very often in the category, especially new entrants, is what they believe is a high cost of product and high cost of service.

And therefore, customers prefer to defer the AMC decision to until later. We have just, as we discussed earlier on the call, launched a two-year filter-like product called Aura 2X online and enhanced NXP in retail. And both of these are doing very well. But if I pull back, the proportion of upfront bundled AMCs is very, very small. So that's your third question.

Avinash Nahata: One question on this. Would it be very different for high value products, for premium products on the water purifier side?

Pratik Pota: It would not be very different; it would be similar.

Avinash Nahata: Okay.

Pratik Pota: Yes. On your second question about seasonality of categories, I think clearly water has been imagined as an obvious seasonality where monsoon months, this period, ends up being a bigger period and a more relevant period for consumers to both enter the category and buy new products and also to go in for servicing. So, this is an obviously high quarter for water.

For cleaning, there is no specific seasonality except that when there is a festive period, just like in any durable category, when there's a festival period, all those big events or big days, that ends up driving category growth. Other than that, there isn't any pronounced seasonality of cleaning. Sorry, go on.

Avinash Nahata: On a regular basis, would this quarter account for more than 30%?

Pratik Pota: We don't give that break-up, but you will see historically, you will see the numbers historically how we have done. But rather than talk about specific numbers, I think, like you said, the broader point is what I made to you. Air purifiers have an obvious seasonality which we are all aware of, which is already in the headlines. While this category remains small for us, that seasonality is very, very pronounced. On your first question, Gaurav will just come in and answer.

Gaurav Khandelwal: So, the revenue that is there, which is amortized, we disclose it as part of our annual report. So that is something which will be disclosed at that point in time.

Moderator: Thank you. Due to the paucity of time, we will take this as a last question for today. I now hand the conference over to Mr. Pratik Pota for closing comments.

Pratik Pota: Thank you. Thank you everyone for joining the call today. I hope that we were able to answer the questions to your satisfaction. Of course, in case there are any queries that remain unanswered or if you want any more clarifications, please feel free to reach out to us at Investor Relations and we will be happy to respond. Thank you and have a good day and have a good weekend ahead.

Moderator: On behalf of Eureka Forbes, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Note: This document has been edited to improve readability

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