Eureka Forbes Limited (formerly Forbes Enviro Solutions Limited)
CIN: L27310MH2008PLC188478 I **Website:** www.eurekaforbes.com
Registered / Corporate Office: B1/B2, 701, 7th Floor, Marathon Innova, Off Ganpatrao Kadam Marg, Lower Parel, Mumbai - 400 013, Maharashtra, India. Tel: +91 22 48821700 / 62601888.

February 20, 2024 EFL/BSE/2023-24/97

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai 400001

Scrip Code: 543482
Scrip ID: EUREKAFORBE

Sub: Intimation of Transcript of Earnings Conference Call held on Thursday, February 15, 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 Thursday, February 15, 2024.

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

Request you to kindly take the above information on record.

Thanking you,

For Eureka Forbes Limited
(formerly Forbes Enviro Solutions Limited)

PRAGYA KAUL
Digitally signed by PRAGYA KAUL
Date: 2024.02.20 18:23:20 +05'30'

Pragya Kaul
Company Secretary & Compliance Officer

Encl: As above

"Eureka Forbes Limited

Q3 FY'24 Earnings Conference Call"

February 15, 2024

MANAGEMENT: MR. PRATIK POTA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – EUREKA FORBES LIMITED

MR. GAURAV KHANDELWAL – CHIEF FINANCIAL OFFICER – EUREKA FORBES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Eureka Forbes Limited's Q3 FY24 Earnings Conference call. We have Mr. Pratik Pota, Managing Director & CEO, and Mr. Gaurav Khandelwal, CFO, Eureka Forbes with us. As a reminder, all participant lines will be on the listen-only mode.

There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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 results may differ materially from the current expectations based on a number of factors affecting the business. I now hand the conference over to Mr. Pratik Pota. Thank you and over to you, sir.

Pratik Pota: Good afternoon and I welcome you all to the Q3 Earnings Call of Eureka Forbes Limited. During the quarter, we reported a strong revenue growth of 14.1% over last year with a revenue of INR538.6 crores. Excluding the impact of discontinued operations, our Q3 revenue grew by 16.8% year-on-year. There were several dimensions to this growth. Growth was broad-based across all the three product categories of water, vacuum cleaners and air and also across the service business.

Water purifiers and vacuum cleaners continued the trend of volume growth for the third successive quarter and registered strong volume growth in Q3 as well. Within these categories in water purifier, we saw good growth in both our economy and our value-added segments. In vacuum cleaners, our robotics range primarily drove the growth along with a range of upright vacuum cleaners.

We have an omnichannel presence and the quarter's growth was reflected across all our channels. Within them, modern trade and e-commerce registered the strongest growth. Lastly, our revenues are beginning to reflect the impact of the innovation pipeline that we are building.

I will speak more about that in just a bit. On the profitability side, adjusted EBITDA margins continue to expand on a year-on-year basis, up to 9.8%, up 111 basis points from last year due to operating leverage and our structured cost optimization programs. This margin improvement was delivered despite a conscious choice of significantly dialing up our advertising spends this quarter both versus last year and versus last quarter.

Our cost program has been instrumental in giving us the headroom to invest behind growth and will continue to remain focused on driving cost optimization. We continue to strengthen our balance sheet with a net surplus of INR60 crores as compared to our net surplus of INR9 crores in the previous quarter and a net debt of INR122 crores in Q3 FY23. As we reflect on our transformation journey, I am pleased to see that many of our efforts are beginning to bear fruit.

Our growth of 16.8% is a visible improvement versus the last few quarters' performance and also compared to earlier long periods of sustained low single-digit growth. The fact that this growth was volume driven is an important dimension and difference versus the largely pricing-led growth of the prior years. Our focus on driving innovation is showing some visible outcomes.

In Q3, we launched new products in all our categories. In water purifiers, we launched the 'Aquaguard Slimtech Glass Range' with a classy contemporary design. 'Aquaguard Blaze Insta' with a differentiated functionality of instant hot water and two new products with alkaline water functionality.

In vacuum cleaners, we launched an exciting range of convenient, handheld and cordless vacuum cleaners, the Forbes ZeroBend Z Series and a category-first Pet Grooming Kit, the Forbes Buddy. Our new range of 360 Surround Air Purifiers too did well last quarter. Importantly, the quality and profile of our innovations like the Slimtech Range, ZeroBend vacuum cleaners etc. indicate Eureka Forbes reclaiming its role as a pioneer and innovator in our categories. We will continue the focus on innovations and we plan to launch several new products in the coming quarters as well. Building our categories and driving growth will require compelling and category-creating communication.

As you know, we made a start with our 'Nal Se Kapda' campaign early in the year. I am pleased to share that the campaign was selected as an Effie Award winner, which is an award for marketing effectiveness campaigns. We increased our advertising spend in Q3 and ran the first ever TV campaign on our Forbes Pro robotic vacuum cleaner with extremely encouraging results.

We will continue to invest on advertising and category-creating communication and to this effect, we have recently launched our first ever service campaign to increase awareness of Genuine Aquaguard Service. Our efforts at improving our customer service levels have also begun to deliver visible results. Q3 saw significant improvement in service levels and turnaround times and our NPS was at an all-time high.

In summary, we are happy with our strong all-round Q3 performance. Looking ahead, we feel very confident that we have the right strategy and the right set of plans to drive sustained and profitable growth in the future and to transform Eureka Forbes into a D2C health and hygiene powerhouse.

On that note, I will now hand you over to Gaurav Khandelwal, our CFO, who will provide more details about our financial performance. Over to you, Gaurav.

Gaurav Khandelwal: Thank you, Pratik. Good afternoon, everyone, and thank you for joining us. Q3 witnessed a continuing step-up in our performance on all three fronts of revenue, profitability and cash flows.

Our revenue at INR538.6 crores grew by 14.1% on a year-on-year basis. Adjusted for discontinued businesses, our revenues grew 16.8%. More importantly, this growth was broad-based across categories and channels and intrinsically driven by volumes. Gross margins were flat at 58.9% versus previous years, and we expect these to remain range-bound. Our diverse portfolio, a service revenue stream and an ongoing cost program gives us the levers to drive gross margins. Our continued focus on cost initiatives ensured that our employee costs and service charges were largely flat versus previous years.

Q3 employee costs include a non-cash ESOP charge of INR10.7 crores, and we expect these ESOP charges to remain at these levels in the coming quarters. Our key agenda is to drive profitable growth, and towards this end, this quarter witnessed increased advertisement spends to support our launches and innovations. Year-on-year increase of INR21.7 crores in other expenses line is largely attributable to increase in advertisement and sales promotion spends. Our efficiency initiatives in various cost lines have given us the headroom to invest more for growth.

It is important to call out that a year-on-year EBITDA margin improvement of 111 basis points is after a significant 310 basis point increase in our advertisement and sales promotion spends. Also, when we see a quarter-on-quarter EBITDA margin movement, there is an increase of 150 basis points in advertisement and sales promotion spends. We believe that there are more efficiencies that can be extracted to drive growth investments and profitability.

Strong cash flow generation continued in quarter 3 from INR122 crores debt in December 2022, we moved to a surplus of INR9 crores in September 2023 and were at INR60 crores in December 2023, leading to a 60% lower finance charge year-on-year. The combined effect of the above has led to an adjusted EBITDA growth of 28.6%, an adjusted PBT growth of 45.6% and a PAT increase of 131.3% on a year-on-year basis. In summary, all three financial matrices of top line, bottom line and cash flows show an improving trajectory. We continue to remain focused on executing the transformation agenda to drive sustained profitable growth going ahead. Thank you.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Priyank Chheda from Vallum Capital. Please go ahead.

Priyank Chheda: Hi, so my question is if you can help on some data point on the service income, so what would be the percentage of new customers buying your innovated, new AMC plans on the new products? And in few calls earlier you had mentioned that large universe of your customers existing base is getting serviced on parallel or grey market, so how has that been trending now with all the interventions coming from your side?

Pratik Pota: Thank you for your question Priyank. Let me begin by first talking about our service business and the performance we delivered in Q3 in service. I think we were encouraged to see a robust value growth in our service business but equally also a very encouraging volume growth in the number of AMCs that we sold. Within this, one small nuance that I want to call out also, is the fact that our web based AMCs saw significant increase versus both last year and versus last quarter.

Like you rightly mentioned, there is a large segment of unorganized service play wherein the parallel market provides service to a customer. It is precisely to talk to this customer base that we have launched an advertising campaign which calls out the benefits of Aquaguard genuine service. We've also launched our new filters which look different, which are in a grey packaging and grey sort of body.

And they also have a QR code which allow for authentication by customers and which we are calling out very clearly in our communication. Our segmented AMCs that we had launched last year is also helping in driving both volume growth and the expansion of the franchise of customers that we service with our genuine service. So overall, I believe we have got a strong set of plans in motion that we believe will help us grow our service business sustainably.

And will help us address this large market like you said of parallel operators.

Priyank Chheda: So, just to clarify, the volume growth in the services, so the number of AMCs sold as a percentage would be much higher than what the new products are getting sold. I hope the reading is correct.

Pratik Pota: No Priyank, I did not comment about one as compared to the other. My comment was, which I also called out in my opening remarks, that we saw good growth in both the product business and in the service business. And in the service business specifically, like I said, we saw both value growth and a growth in the number of units of AMCs sold, in other words, volume growth.

And we also saw an increase in the online element within that of service sales. I hope that clarifies.

Priyank Chheda: Got it. And in the continuation of this service portion going up as we progress, how should we view gross margins in the long term? And this is kind of a contrasting to your guidance in the CFO remarks I heard. We have a guidance of keeping gross margins at a similar level. So, how should we view for the longer term as service income grows, how should the gross margin trending ahead?

Gaurav Khandelwal: Yes, I think, Priyank, I'll just call out the fact that yes, gross margins for the service business is higher than the product business. And yes, directionally it will be gross margin accretive for the business overall. Having said that, if you go back to a strategy, it is also about driving penetration and there will be an equal amount of push on the product business as well. So, they will go in tandem and our belief is that between the two there will be an element of balancing.

But obviously, wherever there are opportunities to drive gross margin improvement, those opportunities we will be looking at availing off.

Priyank Chheda: Got it. Very clear. Just a last question, may I add. Being such a young organization in our new avatar, why would our growth get restricted at 15%-17%? Would we see a kind of a linear pickup in our sales growth is how our category would see or would we see a very step up growth after a few years of investment into brands? And as well as if you can call out what would be the percentage of sales coming from the new products launches?

Pratik Pota: Got it, Priyank. I think, first of all, it's important to take a step back and look at the growth delivered this quarter in a broader context. We delivered this growth and as you know this growth represents a continued increase in growth over the last few quarters. I call out the fact that this growth was volume based. The fact that this growth was broad based across all our categories and all our channels. That's the other important point to underline.

I also want to call out that we have the right set of plans and a very clear strategy aimed at driving sustained growth in the future. We have a very clear plan to drive penetration in water purifiers, to expand the category size, to get in many more users by converting non-users into users. We also have a very clear plan – early signs which you are seeing already of launching differentiated and premium innovations aimed at providing our existing customers and non-users with very, very value-added propositions.

Again, thus we've seen some launches happen already and you will see more action in the future. We also have a very clear strategy of growing a service business and we spoke about it just a little while back. And the fourth element of our strategy is to grow our D2C and our digital business. Again, we saw some green shoots on that both in quarter three and earlier. All of this we believe will give us a path and will have put us on a path to deliver sustained growth in the longer term.

I don't want to comment on quarterly outlook because there will be some noise there, but if I take that shorter term noise out, the fact that we are well positioned to deliver sustained growth and sustained profitable growth in the longer term, that is unambiguous, that is absolutely clear.

Priyank Chheda: All right. All the best and thank you for answering our questions.

Pratik Pota: Thank you, Priyank.

Moderator: Thank you. The next question is from the line of Devika Sethi from Ratnabali Securities Pvt. Ltd. Please go ahead.

Devika Sethi: Hello, sir. Thank you. Congratulations on a great set of numbers. So, sir, I wanted to understand what kind of seasonality do we experience in our products and why?

Pratik Pota: Thank you, Devika. Thank you for your compliment. On your question, there is a seasonality that we see certainly in the water business, wherein typically our quarter two ends up being a bigger quarter because it's accompanied by monsoons and there is a very clear effort both from consumers and from people like us to drive categories and there is a citing concern about people falling ill. So quarter two typically you end up seeing some spikes. Our attempt has been to even as we drive this seasonality.

And make sure we grow and we gain share, we also want to grow the shoulder quarters and therefore our innovations, our initiatives in quarter three as you saw was significantly more than what we delivered in quarter two. So if you look at the last three quarters and our journey, our first attempt and if I go even earlier back to last year, our first attempt and first set of initiatives were aimed at building capabilities and laying the foundations, getting the team right, building the right set of plans.

In stage 2, we created elbow room for ourselves by driving improved profitability. Elbow room to invest, elbow room to drive growth. And in quarter three you have now begun to see the impact of innovations come by. Impact of innovations, impact of more sustained and more aggressive advertising support and that led to the growth that you have seen this quarter. So while there is seasonality which we will ride on and we will build on, we also intend to grow the other adjacent quarters and the shoulders.

Devika Sethi: Okay, thank you for the detailed answer. My next question is we make commercial water purifiers and even vacuum cleaners for institutions, schools, etcetera. And because of the increased intensity of air pollution, do we plan to make commercial air purifiers as well? Is it in our pipeline?

Pratik Pota: Devika, what we intend to do in the air purifier business is first to invest in growing the residential and the domestic market and the B2C market. We believe that with air quality turning adverse and there being a lot more awareness and sensitization about the ample effects of poorer air quality, we believe there is a long runway we have to drive growth in the B2C segment itself. And in fact in quarter three as well as I mentioned earlier, we launched a range of air purifiers.

We saw very, very encouraging growth and response and we intend to sustain this and build on this. We believe air could be a very big category for us in the future, but we will invest in it progressively in a calibrated way. As of now, we have no plans to enter in the B2B side of air purifiers.

Devika Sethi: Okay, thank you so much. That's it from my side.

Pratik Pota: Thank you, Devika.

Moderator: Thank you. Ladies and gentlemen, if you wish to ask a question, you may please press star and one. We have the next question from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddha Joshi: Yes, sir thanks for the opportunity. So three questions. One, if you can elaborate on the rental model which we had launched only in Tamil Nadu. So what has been the feedback on that rental model? Is the success as per the expectations of the company? And secondly, do you see this plan getting rolled out pan-India basis? Question one.

Question two: We have introduced a pet buddy, but how big is the market and do you see any real investment in this kind of a model that can really lead to a sizable revenue, at least in over next two years, three years? So what has been the thought process and what is the revenue potential over a three to four year timeframe, if you can indicate?

And third, so we have already done a good amount of portfolio restructuring. So do you see, if there is still need to introduce some of the premium products and even to reduce or cut down some of the older SKUs so as to rationalize the number of SKUs in the market? So where are we on this thing? Yes, that's it from my side. Thank you.

Pratik Pota: Thank you, Aniruddha. Let me start with your first question on the rental pilot and the rental model. Like you rightly said, we've got the rental pilot in play in Chennai. We continue to observe and monitor the rental business and the rental pilot very closely in Chennai. And you'll be happy to know that there's some very valuable learnings that we are distilling from the pilot. There's some learning that we have drawn about the pricing and the product and the range that we need to have.

There's a very clear learning about service and customer expectations of service, both the speed of service, the reliability of service, there's some learning for our on-ground teams, our field teams on execution, on the responsiveness, on the rigor. And also some learning on our digital experience and ease of access, the intuitive nature of UI, UX, etcetera. And that's what we are drawing as learning's. We are now, based on these learnings, we are looking to scale this up in the next financial year.

And as you can imagine, this is the time of the year when we draw up our annual plans for next year. So doing a progressive extension of this pilot is something we certainly evaluate for FY25. The extension will be calibrated, it will be measured, because we believe this could be a very, very big market. But we want to make sure we take measured steps and not plunge into it headlong right away. So this will be a very deliberate and very measured expansion of rental, starting with a few towns, based on the learnings from the Chennai pilot.

That's where I must also say that we don't see this happening earlier than second half of next year. So that's the answer on rental. On pet buddy, and I'm glad you noticed that product, it's one of my own personal favourites. It is a very, very convenient product for pet parents. All our consumer work shows that the pet care market is a market that's growing very, very rapidly and growing very encouragingly, and can be much bigger than what it is right now.

All the consumer work again shows that pet parents tend to indulge and have a very different threshold to expenditure compared to other consumers.

And we are seeing that already in the early response to the Forbes Pro Buddy. As we imagine, Aniruddha, having a direct sales channel is also a very effective channel for us to do the demonstrations and to do the category creation work required for Forbes Pro. On a lighter note, the challenge happens sometimes when our frontline team members are afraid of pets, but there is a way that we found of working around that, but the learning has been very encouraging.

And this could be a big product for us in the future. I don't want to put a number to it, because I think number would be misleading, because the number would be very, very large. I don't want to cap our ambition, but it could be very significant and meaningful in the future. And again, going forward, this will not remain a one-off product. We will certainly evaluate based on the early learning on how we can expand this and create a larger range around pet care.

On your third question about portfolio restructuring, you were right in your observation that we have done some work already in restructuring and optimizing a portfolio. What we intend to do in the future is, and I called it out in my earlier remarks as well, is two or three things. First one is, we intend to stay focused on driving penetration in the category, and that may require us to create the right products for different consumer segments and different non-users. So that's the first thing.

The second area where we will remain focused is on driving innovations, driving differentiated innovations driving premium innovations, and value-added innovations. That will require us to add some products in a portfolio. And again, going back to what you asked, the expansion of the innovations will happen at both ends of the spectrum.

You will see innovations coming at the value end, but you will also see some very exciting and very significant innovations coming at the super-premium end and the premium end. And that will play out over the next few quarters progressively.

As we launch these new products, you can be sure that we will remain focused on looking at opportunities for rationalization and culling products that do not belong in the future. So we will try and stay lean, try and stay optimized on the portfolio, but we will be investing in creating new propositions and driving innovations at both ends of the spectrum.

Aniruddha Joshi: Okay. Sure, sir. Understood. So just last one question, now we have seen in case of air purifier, the market is shifting in other ways also. For example, there are air conditioners which offer some sort of air purification also. Or even there are companies who have introduced ceiling fans with the benefit of even air purifier also. So will we contemplate launching such products or how do you see the air purifier per se market getting impacted by such products? So what will be the strategy of Eureka in this regard?

Pratik Pota: That's such a good question, Aniruddha. And you are absolutely right that there are people attempting to enter this category and address this opportunity from different vantage points. And that is absolutely outstanding news. Because the more people enter this category, the more news they create, the more will be the visibility of this category and more will be the awareness creation. This category is so small now, Aniruddha, so microscopically small that any attempt to grow this category can only be accretive and only be growth enabling.

So as of now, our focus remains on the consumer and we believe that we have the right strategy and the right plan to incubate and grow this category. That said, we will remain open. We will remain consumer-focused and consumer-centric. If the consumer wants us to do something different, we will of course remain open to it. but the category is so small right now that there is enough and more that all of us can do to just work together and grow this category.

Also, just one more point, Aniruddha, on this one. Just to conclude that point. Remember, our service business ends up being an important dimension, an important force multiplier for us. Because in many ways, air purifiers are analogous to water purifiers and require service, require filter changes. And again, our strength in service will help us wield that and grow the category and grow the range much more effectively.

Aniruddha Joshi: Okay, sure, sir. Understood. Very helpful. Many thanks.

Pratik Pota: Thank you, Aniruddha. Thank you for the questions.

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

Siddhartha Bera: Hi, sir. Thanks for the opportunity. Sir, first question is on this growth side. So is it possible to sort of indicate? So we have done this affordable launches in the past to expand the market. so how much percentage of our revenues will be coming from the affordable products in the water purifier category? If you can share some numbers, it will be really helpful to track the progress.

Pratik Pota: Thank you, Siddhartha. Thank you for that question. I think our quarter three performance, as I mentioned earlier, saw very encouraging growth across all our categories; water purifiers, vacuum cleaners, air, across the board. In water purifier, our growth was driven not just by the value segment and not just by the economy product, but we also saw strong growth coming from the mid-price segment and the premium segment.

As you also saw, in quarter three, we launched a number of innovations. All of these were in the premium price points, be it the Aquaguard Slimtech range or indeed the Blaze Insta Hot product. They are all at the premium price point. So going forward, you will see our growth come from a variety of products and propositions. You will see the value range driving growth, but you also see us drive growth in the mid-price and the premium segments.

One very interesting data point that I want to call out is that as we see customer entry into the mid-price and premium segments, just like we saw in economy, a large number of customers are entering to the mid-price and premium products. So even new entrants are opting for more expensive, more premium, but more differentiated product propositions.

So therefore, our belief now is that it will be not just economy and value that will drive penetration, it will also drive penetration to the complete stack and the complete range of purifiers, provided they deliver to a customer proposition and customer-relevant proposition meaningfully.

Siddhartha Bera: Got it. In terms of slightly more color on the growth, will it be possible to indicate generally the growth will be led by the urban regions or how is the rural areas or which will be your focus area in the near term and whether this growth number can have further upside if you sort of penetrate more into a particular category. So some thoughts there.

And secondly, sir, on the margin side, you talked about multiple catalysts more remaining for further improvement. So some color which will be these areas which can sort of support further improvement from current level.

Pratik Pota: Siddhartha, I'm sorry. I didn't get your second question. Can you repeat the second question, please?

Siddhartha Bera: Sir, on the margin side, so what will be the catalysts for improvement?

Pratik Pota: Margin side, okay, got it. Sorry, I didn't hear that. So let me answer your earlier question first and I will request Gaurav to chip in on the margin improvement point. I think one additional element of a growth in quarter 3, apart from the growth being cross category, cross channel, was the fact that we saw strong growth in both metros, non-metros and the smaller towns.

We saw growth come from modern trade, which obviously as you imagine is more in larger towns. We saw growth come from general trade, which goes down the Forbes data. We saw growth coming from our direct channel, both in the metros and smaller towns. And we saw very strong growth come from e-commerce. And e-commerce, as we spoke to a part and then we saw the data, the e-commerce growth was across the Forbes data; small towns, large towns and metros.

I would say that our contribution of pure play is rural is still small, but you can be sure that in our plans, we intend to build a much larger rural portfolio going forward. The good news is that five quarters availability, power availability in small towns and in rural is becoming meaningful now. And this, we believe, offers us a runway for growth in the future. Gaurav?

Gaurav Khandelwal: Yes. I think, Siddhartha, multiple levers available as far as margins are concerned. Let me break this into smaller parts. I think one on the cost side, I think some of the areas where we see very clear line of sight is around COGS. I think an outcome of a volume growth in a business is that it gives you better leverage in negotiating better prices. So COGS is one area that we've identified as a big opportunity.

The second is that when we look at some of our spend lines, e.g., our IT spends, our freight and logistics spends, and when we benchmark it to other companies, we clearly see a headroom of driving efficiencies. So I think cost is one area where we believe that there is still adequate opportunities to be extracted.

The second is around product mix. And I think one interesting thing that we've seen is that the new users who are coming in are not just in the economy segment, they are also coming in the mid and premium segment. So we have a portfolio opportunity within our product business in terms of economy, mid and premium.

So that mix is a driver for us in terms of margins. And the third is, of course, our service business. It's a combination of cost, it's a combination of our product portfolio, and it's a combination of our product versus service business.

I think the best manifestation of this is the fact that when you look at a year-on-year margin improvement of 111 basis points, this has come after a conscious investment in advertisement and promotion of 310 basis points. So after having invested this more, we are still able to drive a year-on-year improvement.

Even if you look at the sequential margins, in a quarter which was non-seasonal, and for a business with high gross margin, the EBITDA margin was down only by 54 basis points. And this is after investing 150 basis points more on advertisement and sales promotion. So from our perspective, I think we see there being multiple levers to drive margins. And from our perspective, we don't see any of these to be a one-time exercise. These are levers which are going to be deployed on an ongoing basis to drive profitable growth.

Siddhartha Bera: Thanks for the opportunity. I'll come back in the queue.

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

Abhijit Akella: Yes. Good afternoon. Thanks for taking my questions. First, just on the volume growth, while I understand that most of the revenue growth this quarter was driven by volumes, if possible, would it be possible to share some sense of how much in quantity terms the volume growth exactly was for this quarter, and particularly in the water purifier category?

Pratik Pota: Thank you for your questions, Abhijit, or rather for your question. Like you mentioned, our growth in quarter three was strong. And as we had called out, it was driven on the back of encouraging volume growth. And the encouraging part was that this growth was across all our categories; water, vacuum cleaners, air. And within water, we saw growth across all segments of water purifiers; economy, mid-price, and premium.

We also saw strong growth in the RO range of purifiers and the UV range of purifiers. We saw growth in all the regions and we saw growth across all our channels. So this was very, very broad based and very robust. As you know, we don't give numbers, but I can say without any doubt that our growth and our volume growth in water purifiers was strong double digits.

Abhijit Akella: Understood. Thank you. That's helpful. And then on the advertising and promotional spending, is there a rough target we have in mind for this year and maybe next year as well in terms of the absolute amount or percentage of sales? And in that context, can we continue to expect a sustained increase in EBITDA margins over the next couple of years, maybe touching 12% or 13% in the next couple of years?

Pratik Pota: Let me begin by giving you the answer, and then I'll request GK to add and build on my answer. I think first of all, I want to call out the point about EBITDA, the second part of your question. We had called out in our earlier communication that our journey of margin improvement and EBITDA will take us to a space somewhere between the durable benchmark and where maybe some competition could be right now. So between 8%, 9%, 10% to 18%, 19%, 20%. We will not be at either bookends. We intend to firmly travel on this continuum forward. So that's number one.

Number two, even as we invest in advertising, and we will need to invest in advertising to drive category growth, to drive volumes and to drive revenue… to drive our innovations that we are launching. Even as we do that, we believe we have the right levers and the elbow room to extract efficiency from other cost lines, remove and shed inefficiency, and make sure that we drive investments in communication in a way that's sustainable and that helps us drive profitability and margin improvement.

Gaurav Khandelwal: And I think just to build on it, just a couple of points, Abhijit. I think one, we shouldn't see advertisement spends as a plus-plus to our expense line because this will be done in conjunction with efficiencies in other lines. Keeping that in mind, keeping in mind the requirement of growth, and keeping in mind profitability considerations.

The second is that from our perspective, this is one part of the larger roadmap that we have in mind in terms of driving year-on-year margin improvement. So we're very clear that we not wanting to be at either of the two bookends that Pratik spoke about would require a year-on-year margin improvement, and we have a roadmap around that.

Abhijit Akella: Got it. Thank you so much. And just one last thing, if I may, is on the improvement in service metrics. Pratik, you spoke at the beginning about improvement in service levels and turnaround times on NPS as well, I believe. So any sort of metrics you could share around that, you know, that would be great. Thank you so much.

Pratik Pota: No, Amit, I'm glad you noticed that, and thank you for your question. And this is one area which doesn't reflect necessarily in revenue or in margin KPIs, but it's obviously, as you can imagine, a very important enabler for sustained growth and our own reputation and customer experience. So towards that, in quarter three, we made very good progress on all our key service KPIs.

Without putting numbers to them, let me tell you what kind of KPIs I'm speaking about. The number of complaints that we have opened at any point in time, that number went down consistently and was a very, very encouraging number in quarter three. The time taken to respond to complaints, the number of complaints we closed in one hour, the number of complaints we closed in four hours, the number of complaints we closed in 24 hours, all of these improved significantly.

And remember, as we're looking at these KPIs, we are not benchmarking consumer durables. We recognize that the customer expectations have changed, and therefore, and this is the customer who is getting accustomed to the quick commerce kind of service levels and timelines, and therefore our service aspirations are keeping in mind this context. And therefore, even in that context, you are encouraged by the improved service levels and turnaround times.

Yes, so across the board, and of course, like I said, this immediately translated and led to improvement across the board on the net promoter score and increase in the number of promoters and decrease in the number of detractors.

Moderator: Thank you. The next question is from the line of Rahul Kumar Paliwal from Shefa Family Office. Please go ahead.

Rahul Kumar Paliwal: Thanks for the opportunity. So Eureka created a legacy in cleaning and hygiene, but there seems to be a gap in technology-driven space. Like Apple kind of approach, which surprises consumers through advanced health care, new features, deep insights into consumer health areas, and best perspective towards science and product aesthetics. Not only in look and feel, but the DIY side also. So that's one observation for growth going ahead. Then you spoke about innovation.

So my question is on this R&D side. Is it an in-house team? What is the size of the team, and how does it work for you, like talent profile, innovation, index measurement? How does it work so far the innovation is concerned? That's question number one. Question number two is on this air purification and water purification side.

This seems to be a large opportunity. But when we look at the products, the basic specification, like CADR, which is a Clean Air Delivery Rate, is missing. And that feature is not there in our advanced product, even including the new one launched. Like a few other European standard product, Blue Air, and all they do about air purification. I think we should look into those space.

And in the water purification, I feel this electrolyzer moment is a big, so far the science is concerned. And that could create altogether a new category in water science, through not only purification and mineral addition space, but beyond it. So maybe you can consider it and answer about this.

Pratik Pota: Thank you, Rahul. Thank you for your question. And I was struck especially by your first question. You were comparing us to other tech businesses, companies like Apple, etcetera. But I think it's a very, very important point that you call out. If you think about it, Eureka Forbes, from its inception, was imagined to be a direct-to-consumer company.

With a direct sales channel, with a large service network. And that has remained some of our strengths over the years, even as we have acquired new ones. What we are now doing is to reimagine the company in making it D2C, with a much more technology-enabled, digitally-enabled, data-enabled way of working.

Which is why, in my opening remarks, I spoke about D2C health and hygiene powerhouse. So this is a new form of D2C, using the part of digital, part of data, etcetera. And you will see us do a lot of work progressively over the months to come. Our D2C revenue business, from both service and from product, has increased. And therefore, that needs to be something that we need to drive over the quarters to come. You will see us also invest in innovating around smart devices.

We know, and you know Apple for example, Apple Watch is a great case in point, where consumers, like any wearable device, look at data, obsess over their own data on health, and you know, footsteps, heart rate, etcetera. So we know that there is a growing cohort of consumers who like to look at health data. And what better way of driving health than to stay hydrated, and to have an adequate quantity of water.

So therefore, you will see us invest in innovating around smart devices, along with providing customers informed and intelligent value-added insights around their water consumption and hydration. So that will be one area that you will see us invest more and more. So that's number two.

Number three, on your question about R&D, the R&D category and the team that we have. I don't want to put numbers to the R&D team, but our R&D team and R&D efforts are largely in-house, even as we partner with external agencies, like academic institutions, IITs, etcetera, in driving collaboration and partnerships. And I'm happy to tell you that our R&D team is solid, is best-in-class, really, in our categories.

And in the last one year, we've invested in strengthening the capability by adding capabilities around smart, around IoT, around design and engineering, building a stronger team for cleaning and for air. And all of these, we believe, will help us drive innovations and differentiation and basic science work much more in the future. You talked about air and water being a large opportunity.

Couldn't agree more with you. And your observation about CADR, let me just tell you that both our air purifiers have a CADR called out, which, as you rightly mentioned, is a very important metric. Our AP150 air purifier has a CADR of 150 and our AP355 has a CADR of 355.

The name there captures the CADR. And all documentation, customer-facing material has this called out. But I hear your implicit feedback. I will make sure that it's called out more clearly and more unambiguously.

Rahul Kumar Paliwal: Thanks. And about electrolyzer moment in science, like we are getting into a time when the Gigafactories have been established in electrolyzers. So we are moving from purely a purification to advanced stage in not only mineralization of the water, but maybe playing with the water in terms of H2O, right? So a mix of H2O in terms of alkaline water and so on so forth. So how do you look at that opportunity and this sourcing of electrolyzer? I'm talking about like a can-can water kind of thing also.

Pratik Pota: Right, right.

Rahul Kumar Paliwal: So how do you look at this space? It will be outsourcing. And I want to plug another question about manufacturing. I mean, would you continue to be having the white labeling or wanted to get into more of manufacturing to own processes, technology innovation, in-house quality control and so on, which comes when we own the manufacturing side also, including the margin expansion.

So this thing, there will be certain point of time you might think about it. And what would be, what will be that trigger where you will think about, you know, getting into manufacturing itself, then the branding and the service side of this product?

Pratik Pota: So, Rahul, on your earlier question on electrolysis and also on the fact that are we getting into more differentiated products like you talked about can-can, etcetera. I think, let me step back and talk about two things. In the short term, first of all, I called out also my opening remarks, that our value-added water purifier segment, including alkaline water space, rose significant growth for us.

In fact, we were encouraged to see the response to alkaline water purifiers in general trade channel as well. And we could see that this was therefore a much more broad-based acceptance of this segment amongst consumers, not just people, you know, maybe who are more informed and more involved. So, we were encouraged to see that.

Going forward, we also are seeing the emergence of exciting new technologies, which are potentially going to open the door for us for the next technology after RO. And towards that, whether it's EDI or CDI, any of these technologies. So, our R&D team is doing some very, very exciting work now, both within ourselves and with partnerships.

We believe that will open the door for us to build the next range of water purifiers in the future. I won't spend more time on this because it's obviously sensitive information, but you can be sure that we are at the early stage of the new technology and exploring ways of commercializing it. On your second question about manufacturing, our manufacturing of water purifiers is entirely in-house.

And we have all the capabilities required to drive high-quality manufacturing. We have a very strong QA team and very robust QA processes. We have two factories, one in Bangalore, one in Dehradun. Our vacuum cleaner production is a combination of what we produce in these two factories plus what we outsource. And we'll, of course, remain open to looking at ways of insourcing more and more of the products as we go forward.

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

Harshit Kapadia: Hi. Thanks for the opportunity and congratulations for achieving a double-digit volume growth, which you have been saying multiple times. So, congrats on that. A few questions from my side. Since we have seen a double-digit volume growth, what has been the market share gains for Eureka Forbes in the water purifier and vacuum cleaner category? So, we retain our number one position.

But if you can give a sense, have we touched above 50% share in water purifier and probably around 70% share in vacuum cleaner? Is that the first question? Secondly, you had been mentioning on the service side that the consumers who are having AquaGuard and were not using the service of AquaGuard has been significantly higher.

So, has that proportion now come to equal level? Thirdly, just wanted to check you on the distribution, your revenue contribution where we were very significantly present on D2C channel. And now, since we are focusing on modern retail, so that share, how has it moved and what is the touch point that you have reached in terms of modern retail outlets? And where do you expect this number to go to? Thank you.

Pratik Pota: Thank you for your questions, Harshit, and thank you for your wishes. On your first question, I am happy to report and share with you that we have gained market share unambiguously in both water purifiers and in vacuum cleaners. In water purifiers, we were pleased to see a very strong gain in our modern trade channel.

And we were pleased to see a gain across different chains, different geographies, different segments. This gain, market share gain, was both volume and value. As you know, we don't share market share in absolute numbers. And in any case, the market share is reported only for retail by GFK, the third-party audit. And therefore, that's something we believe which does not represent and capture the entirety of market share. But both in retail and in its entirety, our market share gain was robust.

And like I said, it was both in EWP, in water purifiers, and in vacuum cleaners. And we expect that as we drive growth, as we drive innovations, especially in the premium space, we expect to continue to gain market share going forward. Moving on to your second question on service, you're absolutely right.

Our endeavor is to talk to the AquaGuard consumer, who is often unknowingly availing of a parallel operator service. And the attempt that we've been making is to drive awareness, drive ease of access, drive ease of authentication, to convert a large part of this parallel market into the organized AquaGuard space. Like I said, we are pleased with the progress we made in quarter three, with both volume and value growth coming our way in service.

But this will be a long journey. Behaviour change, changing the channel contours will be a sustained effort progressively, quarter after quarter after quarter. And I think it would be facile to expect some meaningful change only in one quarter.

But you can be sure that we will stay resolute, we will stay focused, and we already have and we will continue to have a strong set of plans aimed at converting a growing share of this market into the organized AquaGuard space. On your third question of D2C versus modern trade, actually there is no versus. We believe there is space for both a direct channel to grow.

Our online D2C segmented channel to grow, and of course, modern trade to grow. Indeed, as we demonstrated in quarter three, we were encouraging growth in a direct channel. And one interesting thing, one element of direct channel growth was our robust delivery of growth through premium vacuum cleaners, especially robotics.

And products like robotics respond very well to demonstrations. Robotics applied vacuum cleaners respond really well to demonstrations. And indeed, we delivered that and we saw that in quarter three as well. We also saw strong growth in modern trade, as I said earlier. And given where we are, I don't think it will be an either or. We intend to grow all these channels, modern trade, our direct channels, and indeed our online D2C channels. I hope that answers your question.

Harshit Kapadia: Thank you, sir. Thank you. Just one final question to GK. Your capex number was at INR60 crores for FY '24 and FY '25. Is that the number which you still retain or is there any change there?

Gaurav Khandelwal: No, I think like other all areas of spends, capex is also an area where we will get opportunities of efficiencies that are there having two or three things.

We do expect our capex to be higher than our previous levels of INR17 crores-INR18 crores. We expect this year to be more in the range of INR40 crores-INR45 crores. And hence, we would be spending lower than what we thought. It's largely being driven by a choice of moving our digital development in-house.

We've made significant investment in our digital teams. And we believe that we have the right capability to kind of build whatever products that we want to build. And hence, that's a conscious model choice that we've made without impacting any of the outcomes.

The second point I want to call out is the fact that a capex on innovations and building a pipeline which goes beyond the coming year as well. That is something which continues. And the manifestation of that has been some of the recent innovations that you've seen. And going ahead also, you will keep on seeing innovations coming up.

Harshit Kapadia: Fair enough. And this last question on premiumization, as sir spoke about. Is it possible to share some sense on what percentage of your product portfolio is premiumized in water purifier and in vacuum cleaner?

Pratik Pota: So, it will be hard to share numbers on the mix of the premium products. But like I said, we saw growth in both the value end of the spectrum,the mid-priced products as also the premium segment.

Our innovations, as you have seen, have been at least in quarter three, have been much more in the premium space. But as we go forward, we will have innovations and we will have a strong set of products spanning the entire continuum, the entire spectrum. We believe there is a lot of room for us to drive premium products for sure.

And we have seen that in category after category, the premium segments have been more robust, have responded well. We believe there is room for us to also compress the repurchase cycles of our existing customers by providing differentiated products, providing premium products. So, that is certainly an area of focus.

So, hard to share numbers, but that's an area you will see us focusing on more and more as we go forward.

Harshit Kapadia: Okay, sir. Thank you very much and wish you all the best.

Pratik Pota: Thank you, Harshit.

Moderator: Thank you. The next question is from the line of Kevin Gandhi from CapGrow Capital Advisors. Please go ahead.

Kevin Gandhi: Hello, thanks for taking my question.

Pratik Pota: Hello. Yes, we can hear you please. Go ahead.

Kevin Gandhi: Yes. So, just wanted to understand the margin improvement which you just talked about from approximately 9% to like 14%-15%. So, and as we seen as the service side that the gross margin has already been capped at a certain level.

How do you see from which all pockets of expenses do you see this growth in margins coming from? And in how many time or how many years to be to say that you expect this margin number to grow? So, Yes. Thank you.

Gaurav Khandelwal: Yes, I think two or three call outs on the question. One around the fact that, bear in mind the fact that we are a very high gross margin business and the impact of operating leverage is very high. So, that is something that as we go along that will be one big driver of profitability.

So, that's one. Number two is around the fact that within the cost lines that we have, there are opportunities that have been identified and we are working upon, which is specifically in COGS, in freight logistics, in IT. And there we believe there is significant headroom for margin improvements.

And third, of course, is the mix that we have both within our product portfolio of premium versus non-premium and our service business. So, I think from our perspective, we see multiple drivers across cost, across mix, and across operating leverage via growth. I think I just want to clarify a couple of things.

One is around the fact that I think the intrinsic ability to drive margin is best reflected by the fact that we've had a 111 basis point improvement in EBITDA margin, despite a 110 basis point increase in advertisement sales promotion spend. And a lot of those spends have been veryvery conscious choices that we've made. The second is that we're not suggesting that, gross margin is capped.

All that we are saying is that there are going to be competing, items at play because from our perspective, the growth opportunity that we see is not just in service but also in product. And of course, as efficiencies and costs, etc. come and they increase with scale, even a gross margin could be a lever for overall EBITDA margin expansion.

Kevin Gandhi: Okay, so understood. Sir, just one more question to add. How much was the proportion of the AMC service revenue in this quarter and how much growth is expected over the quarters ahead?

Gaurav Khandelwal: Yes, I think just a couple of points. One, I think in this particular quarter, we've seen growth in our AMCs, both in volumes and in value. So that's an important call out.

The second is from our perspective, this is a big source of growth and profitability unlock. And I think the very fact that, for the first time we're investing behind it through a genuine Eureka Forbes service campaign is a clear manifestation of that. I'm afraid we don't give out on a quarterly basis the split of our service and non-service business.

So that is something that, we're constrained in sharing. But clearly from our perspective, we've seen growth in service and product businesses both.

Kevin Gandhi: Okay, so thank you. That's it from my side.

Pratik Pota: Thank you.

Moderator: Thank you. Ladies and gentlemen, we have no further questions. I would now like to hand the conference over to Mr. Pratik Pota for closing comments. Over to you, sir.

Pratik Pota: Thank you. Thank you, everyone, for your questions and for your interest in Eureka Forbes. I hope we've been able to address the questions to your satisfaction.

In case there are any follow-up queries, please feel free to reach out to our investor relations team and we'd be happy to circle back with you. Thank you so much and have a good day.

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

Note:

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

Contact Information:

Investor e-mail id: investor.relations@eurekaforbes.com

Regd. & Corporate Office:

B1/B2, 7th Floor, 701, Marathon Innova,
Ganpatrao Kadam Marg,
Lower Parel, Mumbai -400013
Corporate Identification No: L27310MH2008PLC188478