

August 19, 2025

BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001 Scrip Code: 543482 Scrip ID: EUREKAFORB Ref.: EFL/BSE/2025-26/29	National Stock Exchange of India Limited Exchange Plaza, C-1, Block - G, Bandra Kurla Complex, Bandra (East), Mumbai - 400 051 Symbol: EUREKAFORB Ref.: EFL/BSE/2025-26/29
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**Subject : Intimation of Transcript of Earnings Conference Call held on Tuesday,
August 12, 2025**

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 Tuesday, August 12, 2025. The transcript of the aforesaid Earnings Call is also available on the website of the Company at www.eurekaforbes.com.

Request you to kindly take the above information on record.

Thanking you,

For Eureka Forbes Limited

Pragya Kaul
Company Secretary & Compliance Officer

Encl: As above



“Eureka Forbes Limited
Q1 FY '26 Earnings Conference Call”
August 12, 2025

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

Moderator: Ladies and gentlemen, good day, and welcome to Eureka Forbes Limited Q1 FY26 Earnings Conference Call. We have Mr. Pratik Pota, Managing Director and CEO; and Mr. Gaurav Khandelwal, CFO, Eureka Forbes, with us.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this call 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 Q1 FY26 Earnings Call of Eureka Forbes Limited. Q1 was a difficult and challenging period. There was a continuing softness in consumer demand, which was aggravated by pressure on trade working capital owing to the slowdown in cooling products, especially in April and May, and it was only in June that we saw some recovery.

In this tough external environment, we are pleased with the results we delivered in Q1. Overall revenues grew by 9.9% on the back of a double-digit growth in our products business. This growth was driven by a double-digit volume growth in both our key categories of EWPs and VCs.

In EWPs, our strategy of focusing on driving penetration and premiumization worked well for us. Our economy range of EWPs continued to grow strongly. During the quarter, we scaled up our range of EWPs with two-year filter life. These products significantly lowered the lifetime cost of ownership, and we are confident that they will help drive penetration and growth for us. We now have more than 40 products that offer two-year filter life. In the premium segment of EWPs, we scaled up our smart IoT-enabled range during the quarter.

We are pleased with the early results and feedback. Our innovations launched in prior periods also continued to do extremely well. In vacuum cleaners, our conviction and early bet on robotics is beginning to bear fruit.

We rolled out and scaled several new products during the quarter - Forbes SmartClean Home Mapping Turbo, Forbes SmartClean Auto Bin Turbo, and Forbes SmartClean Fully Automatic Cleaning Station. We saw 52% growth in robotics, and this helped drive the vacuum cleaner category to strong double-digit growth.

One of the most encouraging new developments in this quarter was the service turnaround. We had a healthy double-digit growth in fresh service bookings. This growth came from a combination of growth in AMC count and an increase in the ASP. We also saw an increase in the number of multi-year bookings.

We had taken several initiatives to drive service revenue growth in the preceding periods. We had first launched segmented AMC offerings to improve affordability and to provide choice to our customers. We then invested in building a strong D2C engine for our AMCs and nearly 2/3rd of our AMCs are now bought digitally. In addition, we strengthened our engagement with our business partners and our service technicians and rolled out direct payouts to the technicians, along with performance-based incentives.

As you're aware, we also launched differentiated filters and rolled out a campaign last year to create consumer awareness around them. We are pleased to see that all these efforts are beginning to bear fruit, and we are confident that this momentum in service bookings will sustain in the periods ahead. On the profitability side, the adjusted EBITDA margins for Q1 came in at 11%, after accounting for higher service charge payouts and with the increased growth investments. Our profit after tax grew by 24.1% over last year.

In summary, in a difficult external environment, we have started the third year of our transformation with a double-digit volume growth, delivered the seventh successive quarter of double-digit value growth in our product business and witnessed a clear and decisive turnaround in our service business.

As we look to the future, we could not be more excited at what lies ahead. Our categories have low penetration and offer immense potential. And we are confident that we have the right strategy and the right set of plans to win in this market and to deliver sustained and profitable growth.

With that, I hand you over to Gaurav Khandelwal for his remarks.

Gaurav Khandelwal:

Thank you, Pratik, and good afternoon, everyone. Before I start off, I would like to bring to your notice that we have given additional information in our Investor Relations pack. We hope it helps in providing a better understanding of the business.

Starting off with the Q1 headline numbers. Our revenues at Rs. 607.7 crores grew 9.9% on a YoY basis. As mentioned previously, starting Q1, there would be no divergence between reported growth and continuing business growth. Profit after tax at Rs. 38.5 crores grew by 24.1% on a YoY basis. On the revenue side, product business continued to register double-digit growth, both in volumes and value. Growth was led by the economy and premium segments in water purifiers and robotics in vacuum cleaners.

Our ahead of curve investments in both innovation and the robotics category is paying off, and both of these now make meaningful contributions to our growth. On the service side, we reached a significant milestone. Bookings grew by double-digits in value, and this was driven by both volumes and ASPs. Within that, multiyear AMC mix improved, which helps in driving customer retention.

While the reflection of service bookings in financials will come with a lag due to service amortization, this provides a healthy revenue stream for the quarters ahead. Our transformation interventions have taken us to a place where we believe that we will be able to drive double-digit bookings growth in service in the quarters ahead as well.

Moving to gross margins. Our Q1 gross margins at 59.7% were range bound versus 60.5% last year and 20 basis points higher on a sequential basis. Commodity costs remained benign for most parts. Given the challenging market conditions in the quarter, tactical promotions were run, which led to a gross margin drop. We believe that our structural advantages and guardrails on gross margin in the form of a healthy product and service mix, portfolios straddling various price points and effective cost management, give us several levers on gross margin.

We continue to exercise cost discipline and both employee expenses and other expenses grew at a rate lower than top line growth. Employee expenses grew 7% and other expenses grew 6.1% on a YoY basis. It may be noted that the increase of 6.1% in other expenses is after growth investments being sustained at elevated levels. The increase in service charge of 17.6% is attributable to the double-digit increase in service bookings.

As we have communicated previously, while the revenue is amortized over the tenure of the AMC, the cost is recorded upfront. Non-cash ESOP charges were Rs. 5.6 crores and are expected to remain at these levels in FY 26. After absorbing the higher cost due to service bookings and growth investments, adjusted EBITDA margins came in at 11% in Q1. Adjusted PBT grew 14.2%.

Depreciation for this quarter stood at Rs. 8.3 crores, largely in line with the previous quarter and amortization reflected an increase due to deployment of technology investments. Other income increase was largely driven by higher treasury income, linked to a larger cash balance versus previous year.

In summary, in challenging market conditions, volumes have grown in double-digits and the transformation interventions have led to the service business turnaround. This has enabled a robust performance for the quarter and provides the necessary platform to drive our performance in the quarters ahead. As highlighted earlier, we will continue to be growth focused and aim for margin improvement on a full year basis. Thank you.

Moderator: Sir, should we open the floor for questions?

Pratik Pota: Yes, please.

Moderator: Thank you very much. Our first question comes from the line of Umang Mehta from Kotak Securities. Please go ahead.

Umang Mehta: Hi, thank you for the opportunity. The first question was on the service business. Your commentary this quarter is much more kind of encouraging than past few quarters. I heard Gaurav mentioned that service bookings also could continue with double-digit growth going forward. Any outlook on how the revenue acceleration would take place? Do you have visibility of service growth kind of not weighing on overall growth in a few quarters? Any qualitative comments on that would help. That's the first question.

Pratik Pota:

No, Umang, thank you for that question. Let me begin by first addressing the larger point about service revenue growth, and then I request Gaurav to chip in and talk about when you can expect to see this flowing into the reported numbers. I think you're absolutely right. All the efforts that we've been making and that we've made in the prior periods, we see them coming together now and helping us drive both significantly improved customer experience and, in this quarter, especially, strong double-digit service booking growth.

What encourages us is that A, the growth came on the back of both AMC count growth, in other words there was a volume growth which came back, as also, a greater number of multi-year AMCs, and that's a reflection of customer retention and customer longevity and eventually higher lifetime value. So, it was both a volume, and a value driven growth in AMCs. We also saw growth in both our offline channels and, of course, in the D2C online channel. So it was a fairly balanced growth profile.

In addition to the AMC growth, we also saw growth come by in our filters business. And as you may recall, in the prior investor calls, we've talked about putting in place a new go-to-market system for selling filters and spares. And that's now begun to stabilize, and that helped us drive growth in Q1.

As we look ahead at the periods ahead, we feel very confident that we will see double-digit growth in service bookings sustained and all the efforts that we've made and that we continue to put in, in service transformation, picking up pace and helping us drive growth. In terms of impact in the P&L, you can expect to see the numbers show up in the reported numbers by Q4 of this year. And GK, you want to add anything?

Gaurav Khandelwal:

Yes. And Umang, the reason for that is that the revenue gets amortized and hence, it comes with a lag. But I think the important part from our perspective is that going by what we've seen in Q1 and the line of sight that we have, that pipeline looks quite healthy, and you will start seeing this getting reflected from Q4 revenue onwards.

Umang Mehta:

Understood. That's very helpful. And the second one was on gross margins. You did mention about some tactical promotions had some impact this quarter. I also kind of we picked up about this big exchange, which we've launched recently, so, any outlook you can give on that front? I mean, how should we think about gross margins going ahead and the impact of this exchange program on margins?

Gaurav Khandelwal:

Yes. I think our focus is on driving innovation and getting adoptions going. And our experience has been that our exchange program has worked quite well. So that is something which as a program we continue and that has helped in driving growth, particularly in our premium segment. So that is one part. Second, from a gross margin outlook, as I mentioned, Umang, we've got multiple levers in hand.

We've got a 2/3rd, 1/3rd split of product and service business, in product we straddle all the price points, our higher volumes have now given us buying efficiencies which are coming in and hence, our view on gross margin is that it will be range bound. There will obviously be elements of seasonality, which are there, which will play out, but we expect this to be range bound.

I'll just also draw attention to the fact that if you look at the last 3 years in some ways, we've pursued a strategy of driving penetration. Our product growth has been ahead of our service growth. If you look at a 3-year view of our gross margins, they've been very, very range bound.

So, our belief is that there are multiple levers in hand, and we will keep gross margin at a place where we think that it remains range bound. Obviously, you're well aware of the market conditions, so we are very conscious of the fact that we will be pursuing growth and will be price competitive in the market, but we will use all levers available to make sure that our gross margin remains at a particular level.

Moderator: Our next question comes from the line of Aniruddha Joshi from ICICI Securities.

Aniruddha Joshi: Thanks for the opportunity and Congrats for a great set of numbers. Two questions, one, in terms of PPT, you have indicated that we have launched water filter with 2 years of life targeting the nonusers. So if you can indicate about the TAM or the findings that the company sales or marketing teams would have got regarding the market size of these nonusers? And what will be the growth potential over, let's say, next 2 or 3 years in this market? That is question one.

And then second is an accounting question for Gaurav. So let's say, a multiyear plan is taken by any consumer, let's say, 3-year plan is taken by any consumer and he pays the money upfront. So how does the accounting happen? Whether it is based on the servicing, or it is any periodic accounting that is done that every month some revenue is recognized out of that and till that time, whether the money is in current liabilities, or some portion is in current liabilities and other remains in long-term, in a way, obligations? These 2 questions.

Pratik Pota: Aniruddha, I'll answer the first one, and then request Gaurav to chip in on the second question. I think the 2-year filter life products address a very fundamental category barrier for water purifiers. The water purifier category, as you know, Aniruddha, has a penetration of only about 6%. Even in urban India, the penetration of EWPs is about 12% and rural, of course, is much lower at 3%. And one of the big barriers that holds back EWPs is a perceived high cost of ownership.

If you recall, about 2.5 years back, we had launched an economy range of Aquaguard, which addressed another barrier, which was the high upfront cost of entry and by launching Aquaguard at less than Rs. 7,000, we tackled that barrier, and we are seeing very, very encouraging growth and penetration increase thereafter. And all the data had shown that more than 2/3rd of the customers who had bought that economy device were first-time category entrants.

This time with a 2-year filter life product, we are addressing the other barrier, which is the high cost of ownership barrier. And by launching purifiers, which have a 2-year filter life, our customers can actually save almost Rs. 18,000 over the entire lifetime of the ownership. And we believe very strongly that this will help drive category penetration immensely and because of that, we have launched a range of these purifiers and not just at the premium price points, but across, starting in economy to mid-price to premium. And we believe that this can significantly expand the market.

If you think about the current market and the penetration being only 6%, you can do the math. As the penetration increases, as we address this fundamental category barrier, we will see the category grow, and look, if you look at any other peer country in the neighborhood, let's look at Sri Lanka, penetration of about 18% to 20%, China upwards of 25% now, Korea upwards of 60%, Thailand upwards of 25%. So, these are all markets which are very, very similar in profile and we believe that our penetration in India will follow the same trajectory as we systematically attack both the consumer barriers, like the one I mentioned just now, or indeed activate the triggers. So that's on your first question. Gaurav, on the next one.

Gaurav Khandelwal: I'll cover the qns, on the accounting I'll cover all dimensions. So revenue is done on a straight-line basis amortization. So, let's say, it is a 2-year AMC, and let's say, the cost of that is Rs. 7,200. So, it will be Rs. 300, which is getting recorded every single month as a revenue. So that is how the revenue keeps getting reflected every month. Hence, you have upfront bookings and a cash inflow of Rs. 7,200, what you see in the financials is Rs. 300 every single month.

Coming to the cost bit of it, the entire cost of acquisition of this AMC of Rs. 7,200, that is recorded upfront. So cost is not amortized over the tenure of the AMC, that cost is upfront. And hence, you see the service charge increase happening at a rate higher than what you would see reflecting in service revenue.

Now coming to the balance sheet part of it, for the part in a 2-year AMC, up to month 12, that will appear in current liabilities, from month 13 to 24, that will appear in non-current liabilities, and this keeps shifting for whatever balances which pertain to within 12 months from the closing period.

Aniruddha Joshi: Okay, this is very helpful. Just one further clarification. So essentially, we are right now booking all the costs, but a partial revenue is getting booked when a service revenue is booked. Is that correct?

Gaurav Khandelwal: You're absolutely right.

Aniruddha Joshi: So as this phase will get normalized, let's say, in a period of 1 year or maybe 1.5 years.

Moderator: May we request you return to the question queue for any further follow-up questions, please.

Aniruddha Joshi: Actually, this is just a clarification only. So, we will see a relatively better margin expansion as we are booking the additional cost. So is that understanding correct?

Gaurav Khandelwal: Yes, because the costs are coming upfront and hence, the revenue will come later and then you will see a margin expansion. The thing to be kept in mind is that on a sustained basis, if you are growing bookings, then there will be that cost which will come in. But on a standalone basis, you're absolutely right that the entire cost of Rs. 7,200 AMC is coming on day 1. While when you start recording future months, there is no corresponding cost that you have to record. But then again, you may book another AMC at that point in time, and that cost will come.

Moderator: Our next question comes from the line of Harshit from Elara Capital.

Harshit: Thanks for the opportunity and Congrats for a good set of numbers, sir. Two questions from my side, we see a double-digit growth across the product category, would you be able to share whether in economy, mass premium and premium, all 3 segments grew in double-digit for water purifier? And because of the average selling price mix, we see that probably the value growth was a bit lower than the volume was, specifically to any particular segment? And do you think this trend is what is going to continue?

Pratik Pota: So Harshit, thank you for the questions. Let me start by responding to your first question, which is about the growth in our growth profile in our EWP portfolio. I think as I mentioned in my opening remarks, we had in line with our strategy, a very deliberate focus on driving the economy segment to drive penetration and to get in new users. That strategic objective yielded us results very clearly in Q1, as indeed it has in the preceding period as well and we saw very strong volume and value growth in the economy segment.

And again, in line with our prior experience, a dipstick on these new users or this new acquisition told us that most of them were first-time category users. So again, the objective of growing penetration was served by the growth of the economy segment.

In addition, we also had a very deliberate strategy of upgrading the mid-price segment and the mid-priced user via premium offerings at competitive price points. Our prior innovations of Blaze Insta hot water product or indeed the under-the-counter product or our various stainless-steel products or more recently in the last quarter, our range of IoT products, all of them helped upgrade the consumer from mid-price to premium. As a result, we saw a very, very strong growth in our premium portfolio as well.

I think as Gaurav mentioned earlier in his opening remarks, I think we are the only brand in this category that has a very balanced portfolio across price points, across propositions. And we brought all of that to bear in driving growth last quarter across price points. On your second question, I think we were fortunate to see both a double-digit growth in volume, and in value. So, there was no material dispersion between volume and value growth.

Harshit: Understood. Sir, and secondly, on servicing, would you be able to share some comments on since we are ramping up the servicing portfolio, how is the filter production inventory management? And is there any input element on the filtration side as we see more bookings coming up, are we have enough service people? Or are we required for any further investment in this category?

Pratik Pota: Harshit, that's a really good question, and let me answer both parts of it. I think, first of all, given the growth that we have seen in our product business and as the category penetration grows, expanding our service network and growing the service capacity is an ongoing work stream that will continue in the foreseeable future. We have a very large and a very, very, I think, capable and a very solid network of business partners and technicians in our existing markets, and we intend to strengthen our partnership with them. But as the markets grow and as the categories grow, we will need to ramp up our network of partners and technicians. And that, like I said, is an ongoing effort, number one.

Number two, in terms of your question about imports, et cetera, all our manufacturing of filters, et cetera, is done in-house. We have 2 factories, as you know, one in Dehradun, one in Bangalore, and it's all done in-house. We have abundant capacity to accommodate for filter growth in the foreseeable future. The third point around filters, and it's important to underline this, is that there's a lot of work that we've done, and you'll see a lot more of that in the near future as well on filter innovation, to make sure that we are having very clearly differentiated product across the filter range and relevant for different parts of the country.

So for example, we have a filter called Ironil, which removes iron from groundwater and from the water source, and that's very relevant in markets in the eastern part of the country. Last quarter, we had launched a HMR cartridge, which is heavy metal removal cartridge, which again is relevant in many markets where you have issue of heavy metals, markets like Bihar, markets like UP, Chhattisgarh, et cetera. So that's an example again of filter innovation and we continue to do a lot more of these innovations to make sure that we offer differentiated and relevant filters for different parts of the country.

Lastly, on filters, I mentioned that earlier also, in order to make sure that these filters reach the consumer, we are strengthening our network of distributors and partners. I think it's important to call out that historically, we've been focused a lot more on AMCs, and we haven't really had the same distribution outreach in filters as required and this filter ecosystem is a very different ecosystem.

And therefore, this new network of distributors that we've created and are strengthening, will help us reach this large, large network of the aftermarket with technicians who are not employed with us and not working with us but who service customers, nevertheless. So, all of these put together will help us really realize and leverage the vast opportunity which lies in tapping into the base of customers who don't sort of use or avail our AMCs right now.

Moderator:

Our next question comes from the line of Mehul Desai from JM Financial.

Mehul Desai:

Hi Sir, thanks for taking my question. So, my question was more on the EBITDA margin side. Obviously, you did allude to the fact that gross margins will remain range bound and you also highlighted that service charges might not materially come down because obviously, you are focusing on increasing the bookings and that double-digit booking growth will sustain. So, to that extent and obviously, growth spends also, my sense is that will continue. So can you provide some flavor on how do you see EBITDA margins? Will they be also range bound at these levels? Or do you see levers for EBITDA margins to improve from this 10% level at least in FY 26? Or should we assume that the margin expansion will be more seen in FY 27 when the service revenues start kicking in?

Gaurav Khandelwal:

Yes. Thank you, Mehul, for your question. No, I think just for immense clarity, we continue to aim for growth and margin expansion on a full year basis. I think that is something which we have set out as an agenda, and we continue to remain focused on that. So that's part one. Part two, in terms of what are the drivers that are available to us, I think first is going to be operating leverage. With a gross margin profile like us, growth automatically leads to an operating leverage. So that is something which will continue to be there.

The second element that is there is going to be to drive cost efficiencies in terms of wherever we find opportunities, that is something that we will keep working on. And if I were to kind of correlate these 2 with, let's say, our Q1 performance in some ways, we are in a situation where the Q1 margins on a YoY basis are down by 46 basis points, but this is after absorbing additional growth investments of 66 basis points, and this is after absorbing a nearly 80 bps on higher service charge.

So it just tells you that intrinsically, the margin profile is quite strong. And hence, we believe that we've got enough and more levers which are there to help achieve the ambition of driving a full year margin improvement. There should be absolutely no doubt whether the margin expansion agenda is being pushed to FY 27, certainly not. It very much remains part of the ambition for FY 26.

Mehul Desai:

Got it. And when you say operating leverage, obviously, your 3 big line items are your advertisement and sales promotion expense and then the other big item is service charge. So, I mean, I was assuming that ASP spends as a percentage to sales might not come down in FY 26, but is service charges where you will still see an operating leverage kicking in even when you are going for a double-digit bookings growth?

Gaurav Khandelwal:

So Mehul, it may not come in service charge because I think service bookings is something where we feel that there will be sustained double-digit growth. But the other big lines which are there where operating leverage will come, employee cost, for us, it is a Rs. 300 crores plus line. If you look at Q1, our employee cost increase has trailed revenue growth. Even within other expenses if you were to look at, there is one element which is advertisement and sales promotion.

But outside of that, there are other expenses where we continue to exercise very, very strong efficiency measures. So the levers that are available to us outside of service charge is a fairly large universe to look at. And I think our trend so far has been that on those lines, we've been able to sustainably drive operating leverage, and that is something that we believe will continue as we go ahead.

Moderator:

Our next question comes from the line of Anupam Goswami from SUD Life.

Anupam Goswami:

Sir, if you can just clarify how are we seeing the market competition now? What is our market share in this versus the competitors? And also, sir, if you can mention the service revenue, just a clarification from the previous participant. If you take the service revenue from the current liabilities that part and add it along with the cost, should we get an adjusted sort of feel that how the margins and service revenue are playing out? Would that be a correct approach, sir? That is all.

Pratik Pota:

I'll answer the first question, and then I'll request Gaurav to clarify on your second query. As you've mentioned and as I'm sure everyone has noticed, there has been a significantly increased competitive activity in this category and number of brands that have either entered or scaled up the presence in the last few months. We believe that this is an extremely positive development for the category. Entry of new players and new entrants with new communication, new innovations, all are signal that they all believe that there is promise and potential in this category, number one.

Number two, they create more awareness about the category. They create more interest in the category and more levels of visibility. So all of these will help stimulate and drive category growth further. And as the largest and the strongest brand in the water purifier category, Aquaguard will stand to benefit as the category grows and expands. We have been very, very cognizant and very, very watchful of the evolving competitive activities, and we've been very, very swift to respond and to take action as required.

So we've stepped up our activation and our innovation efforts across different spaces in EWP. I mentioned earlier in one of my remarks that we have scaled up the 2-year filter life products. We've also scaled up the range of our smart IoT-enabled products. We've also done a number of other things across all channels, whether it is in modern trade or in traditional trade or indeed in e-commerce.

We've been very, very aggressive and very, very forceful in our response. You'll be happy to know that notwithstanding the increased competitive activity, our market share has not gone down. It's remained absolutely unchanged, and we feel confident about that going forward as well. Gaurav.

Gaurav Khandelwal:

Yes. Anupam, on your second question, just to get my understanding right, what you're saying is that or you are trying to understand is that if you were to add the current liability part, would that be a reflection of revenue? No, that may not be the right way because this is a rolling thing. So there is a particular balance as it stands at each period end.

Then you sell fresh AMC, then there is then a fresh CL and non-CL bifurcation that happens because some of the past AMCs also expire. So this is something which is an ongoing feature. And hence, looking at a standalone balance on a particular balance sheet date and taking that as a view, that may not be the right way to look at it.

I think a good surrogate in some ways, it may not be exact, would be to maybe keep looking at the service charge line. That gives an indication, although I must call out service charge has got 2 components. One is revenue related and one is just the cost of servicing. But I think the balance sheet approach may not give the exact answer or even an approximate answer in some ways.

Anupam Goswami:

Got it. So, service cost growth, Sir, just a clarification on that.

Moderator:

I'm sorry, but there are several other participants waiting for their turn. Our next question comes from the line of Mr. Achal Lohade from Nuvama Institutional Equities.

Achal Lohade:

Good afternoon and thank you for the opportunity. Sir, if you could clarify in terms of what kind of installations we have at this point in time? And how much is the penetration of the service offering for us at this stage? And what could be the potential? I mean, if you were to paint a blue sky scenario, what could be that number in terms of penetration? Just a broad sense on the same.

Pratik Pota:

Thank you for your questions. In response to your first question about what our installed base is, I'm happy to share with you that we have an installed base in water purifiers of almost 14 million customers, and that has grown year after year.

Notwithstanding that, the reality is that the category of water purifiers has a very low penetration of 6%. And earlier in the call, I had talked about several neighboring countries, not very different from ours in many cases, who have much higher levels of penetration, whether it is a 20% or a 60% or a 25%, and there is no reason to believe that penetration in India could be any less. If anything, the groundwater quality in India that we see tells us that the relevance for water purifiers is even more. It's near universal.

I would draw your attention to the recent report by the Central Groundwater Authority and which shows the water quality in different parts of the country having deteriorated over the years and the fact that groundwater in different parts of the country has traces of nitrates, arsenic, pesticides, heavy metals.

So this is a universal problem. And therefore, this category has universal relevance and universal need, whether it is in top town urban India or it's in small town urban India or rural. And we have absolutely no doubt that as consumer awareness grows, as affordability increases and as people like us, as category leaders, we attack these category barriers, we will see growth come by.

Two years back, and maybe this is bit of a flash back, but 2 years ago, when we had begun the transformation, we were asked this question repeatedly by people that the water purifier category actually hadn't grown in the preceding 4, 5 years and the question to us was what gives you conviction that the category will grow. You've seen the growth over the last 7, 8 quarters of water purifiers growing by double-digits, both volume and value. We have seen that momentum sustain and continue.

And we have absolutely no doubt, as you look at all the data points, our own consumer insight data, the macro data, we know that this category will have a penetration expansion, penetration growth, which will sustain over the next many, many, many years. So, I mean, I don't want to put a blue-sky number to it, the blue-sky have only 100% penetration because that's the relevance in this country. There is no consumer in this country who does not meet this category. That's on water.

Now let me switch gears and talk about vacuum cleaners. Again, this category was felt, what was perceived to be one of absolutely no relevance or very low relevance. However, the onset of convenient cleaning and especially robotics has changed the paradigm completely. In a country like India, which is urbanizing rapidly and which is time starved and time scarce, something that removes the burden of cleaning, is extremely relevant, and we are seeing that reflect in our robotics growth.

And as I mentioned in my opening remarks, we took a bet on this category very early on, 2.5 years back, and we are seeing those results now come by. So whether it is cleaning or indeed earlier water, we see the runway for growth being tremendous.

Achal Lohade:

Sir, on the service part of it, where the AMCs are taken up by the customer out of the 14 million customers, what is the penetration at this stage? And what kind of number would be more of a fair number, let's say 4, 5 years or 10 years, whatever you feel appropriate?

Pratik Pota:

Yes. Thank you, Achal. That's a really good question. And that again, I think that question illustrates the sheer runway and the sheer opportunity that we have ahead of us. So out of this installed base that we have, the large installed base of Aquaguard, only a very small proportion of these customers, avail of our AMCs and avail of our organized services. A larger part of the installed base avails of either the service or the filters from the unorganized parallel market. And our research shows that most of this purchase happens unknowingly.

Let me rephrase that. Most nonusers of Aquaguard AMCs believe erroneously, believe mistakenly that they are availing of genuine Aquaguard services and very often paying the same amount. So it's a question of information asymmetry and knowledge asymmetry. So therefore, as we drive awareness of genuine AMCs, genuine filters, as we drive filter differentiation, as we drive our own go-to-market becoming stronger, as we drive digital up, we will see a much larger share of this installed base coming under the ambit of our service offering.

And one reflection of that runway is the growth that we saw last quarter in service revenues. Like I said earlier, we saw a double-digit growth in service bookings, and we expect that momentum to sustain in the period in the future. So going back to your first part of the question, low penetration in product categories, tremendous runway for growth. Low penetration of the installed base in service, tremendous runway for growth. So really what lies ahead of us is an extremely exciting period of multiple opportunities.

Achal Lohade:

Got it. The second question I had was with respect to the seasonality part of it. So, if I see in the first quarter, we have had on a reported basis, I'm not looking at the adjusted EBITDA at this stage, the margin was stable actually YoY at 10.1%. So, given what we are looking at in terms of the service growth, like you said, 4Q, it will stabilize, right? So 2Q and 3Q, could we see margins remaining stable, offsetting the entire operating leverage of the product mix? If you could just give some clarity because if I look at the EBITDA growth for the first quarter on a reported basis is 9%, right, while PAT growth is 20%, helped by the other income. So just wanted a bit of a color on the 2Q and 3Q margins, could we see margins being stable YoY given the offset?

Gaurav Khandelwal:

So Achal, I'll just reiterate the principle that we are aiming for a full year margin improvement. And obviously, that would mean that for a full year margin improvement to happen, that would be a journey which would need to span across quarters. On a reported basis, you're absolutely right, our margins are flat on a YoY basis. And our expectation and our plan is that to drive a full year margin improvement, there would be a need to keep driving margins ahead of the previous year and the balance 9 months. So that is what our ambition is.

Again, just to reiterate the fact that in our business, operating leverage plays a very, very critical role. With a gross margin profile, which is nearly 60%, that has a very large role. The second element is that our agenda on cost efficiencies, that is something which continues. So, our focus will remain very much on that and we remain to our ambition of driving a full year margin improvement.

Moderator:

Our next question comes from the line of Parikshit Kabra from Pkeday Advisors LLP.

- Parikshit Kabra:** Thank you for the opportunity and Congratulations on a steady set of numbers. I wanted to understand from the revenue perspective for the services line, I think you said that the margins will start improving by Q4, but the revenue growth rate should start coming sooner rather than later?
- Gaurav Khandelwal:** Parikshit, what we mentioned is that the reflection of the bookings growth that is happening now, the reflection of that in revenue will start happening from Q4. Now the implication of that is that the moment it starts landing as revenue that also then means it starts flowing into margins as well.
- Parikshit Kabra:** But why would it take so many quarters for it to come up in the revenues? You said it's just a straight-line method, right? You'll start seeing it from immediately the next month?
- Gaurav Khandelwal:** No. So, there is a straight-line method, where the revenue for what you've sold now, that gets recorded in every single month from the first month itself, but what you are carrying forward are the past AMCs, where some of them lapse. So they go away and you have a fresh booking that happens for which the revenue gets recorded.
- Parikshit Kabra:** Got it. Got it. So then let me put it this way. Will we be seeing double-digit revenue growth from Q4 based on current trajectory?
- Gaurav Khandelwal:** As I mentioned, the impact of service bookings will start getting reflected in our revenues meaningfully from Q4. So currently, you see service being a lag on the overall growth and it creates a fairly large lag at this point in time, that will start coming closer and converging from Q4.
- Moderator:** Our next question comes from the line of Dhrumil Wani from Girik Capital.
- Dhrumil Wani:** Thank you for the opportunity. Just wanted to ask one question. Like on Slide 20 of the presentation, we have given the growth rates expected. So if you take a weighted average of our product portfolio, it comes to around 13%, 13.5% growth rate for the projected period. But despite that, like in Q1, which is like a seasonally strong quarter, we have done only a 10% growth. So how confident are we of achieving the numbers stated, like the category growth rates?
- Pratik Pota:** So, Naitik, just to clarify, what you see on Slide 20 is an estimate of the total category and total market. And what we are showing is that the total market size would be Rs. 23,000 crores at a CAGR of 13%. So that's the reflection of the category size and the category growth momentum.
- Coming back to your question about Q1. I think it's important to once again underline and remember that Q1 was a challenging period, in part, because of soft consumer demand sentiment, but also because of the headwinds which the cooling category faced because of unseasonal rains, the compressed summer and the mild summer.
- And in some ways, our category was collateral damage as part of that headwind, because trade inventory was stuck and the fact that there was working capital stuck, which impacted velocity, impacted other categories. So that's the first point.

The second point is that if you double-click on the growth that we've had, while the reported growth was 9.9%, we've said clearly that our product business grew actually by double-digits, both in volume and in value. And in an otherwise challenging environment, growing double-digits was something that we were extremely encouraged by, especially because the growth came on the back of volume expansion and volume growth.

So I would imagine that the longer-term projection of the category growth that you see on Slide number 20, they remain. If anything, I believe that in some categories, you see faster growth and higher category size.

So, for example, to illustrate, vacuum cleaner category, it talks about the category becoming Rs. 1,500 crores by FY 30 from Rs. 500 crores in FY 23 at a CAGR of 17%, as you can see on the slide 20, of our IR pack I can tell you that with robotics going the way it is, we are seeing that momentum already being surpassed and we expect that to sustain going forward.

So, we expect to see the vacuum cleaner category become much, much larger in the FY 30 time period compared to what you see here. So if anything, I would like you to go with a conviction that what you see on Slide number 20 is a modest conservative estimate. And both in water purifiers and in cleaning, you will see growth that will surprise us all.

Dhrumil Wani:

Okay. And just a follow-up on that. Like we have on Slide 16, given the details on the contribution of online to total AMC booking, which stands at 64%. So, at what margin and like by when we can expect that contribution to stabilize?

Gaurav Khandelwal:

So Dhrumil, I think just to give a reference, the contribution of online earlier used to be roughly 10% to 12% and has now gone up to 65%. From a profitability profile, it is not very different from what we would have in offline. I think the important part to call out is the rationale of this strategic initiative. What online does for us is an ability to get customer retention to be better. Because with an online thing, there are multiple, I could prompt the customer, I could send notifications on app, I could alert the customer. So there's a bunch of things that I could do with the customer. And that is why it becomes very, very critical from a strategic standpoint as far as customer retention is concerned. From our perspective, our ambition would be to take this number as high as possible. So, we've had over the last 2, 2.5 years, a journey from 8% to 10%, which today is now 2/3rd, our ambition would be to keep increasing these numbers as we go along because it helps in customer retention.

Moderator:

Our next question comes from the line of Naitik from NV Alpha Fund.

Naitik:

I just wanted to know what was the services revenue growth if I were to compare it YoY during this quarter?

Gaurav Khandelwal:

Hi, Naitik. So the service bookings growth that we've reported is a double-digit growth in value, underpinned both by volume and ASP. As far as the service revenue growth is concerned, we are constrained on sharing that for the reason that the AMC business is something which is unique to us.

In our view, it is a source of competitive advantage and a competitive moat, because we have a very wide service network. So we don't share that split. However, I can share that at a big picture

level, service is 1/3rd of our business and adds an important source of profitability for us, but beyond that, we don't really share data points on service business.

Naitik: Right. So okay, sir. Then in terms of product revenue, is it safe to say our growth YoY was just about double-digits then in that case?

Gaurav Khandelwal: It is not just about double-digits, it is more than just about double-digits because if the aggregate itself is coming to 10% and service is under indexed, which is 1/3rd of the business, then by implication, product becomes a higher growth. So just for clarity, it's not that the product business is a 10.1% or a 10.2% growth business, it is higher than that, let me put it that way.

Naitik: No, sir. What I meant is 11%, 12%, not say 10%, but about 11%, 12%?

Pratik Pota: Yes. I think we've been very clear, Naitik, in all our comments so far, product business grew in double-digits. It wasn't, as Gaurav said, marginally over 9.9% or 10%. It was a decisive double-digit growth, both in volume and value. Beyond that, I don't want to debate and pinpoint a number, but I think you should walk away knowing that it was very clear double-digit growth.

Gaurav Khandelwal: I think just one last point to add that in an annuity business like AMC, the critical lead indicator is bookings because that then gives you an assured revenue stream for the future. Your cash flow has all come in upfront. You've taken in the cost upfront. It's just a question of timing of recognition of revenue. So from our perspective, we look at bookings as an important lead indicator.

Moderator: Our next question comes from the line of Keshav Lahoti from HDFC Securities.

Keshav Lahoti: Hi, thank you for the opportunity. Sir, what was the ad spend in Q1 as a percentage of sales? And what is the budgeted spend for this year?

Gaurav Khandelwal: So as per as spends for the year are concerned, Keshav, we will continue investing for growth because we've got a bunch of innovations which we've launched, our bet on robotics has moved quite well and hence, we will keep investing for growth. We are also very cognizant of the fact that the market is in a bit of a challenging condition.

We don't want to, in a market like this, constrain ourselves, but we will keep investing for growth. Having said that, we will be choiceful and calibrated about the spends that we do where we get maximum ROI. So that is the balancing that we will keep doing, and also keeping in mind what other cost efficiencies we are able to drive, so that our ambition of achieving a full year margin improvement is also on track.

As far as quarterly number is concerned, again, we've maintained our spend at elevated levels versus last year, we've taken up our spends in absolute terms and that is something which going ahead is something that we will continue doing, but within the guardrails that I mentioned earlier.

Pratik Pota: Let me just add to that Keshav. I think look our advertising and promotion expenses serve 2 objectives. First one, and very important for our category is consumer education and category creation, so driving awareness, driving behavior change. And the second one is about making

sure that our innovations that we have done reach the consumer. So driving awareness and penetration, driving our innovations.

I also draw your attention to what you may have seen in the last 1 month, 1.5, 2 months, which is a very, very dialed up visibility, both in print and on television to some of our campaigns. So, for example, in the very exciting India-England test series, you would have seen our advertising on the 2-year filter life. You may have seen in multiple newspapers or print ads on again the 2-year products as also the robotics products and you will see that sustain overtime. So, driving penetration and awareness and driving premium innovation will be the agenda that you will see us do.

In addition, we also have a task on service, and you will see us driving awareness around service as well. Lastly, it's very, very important that we bring this alive at the point of sale. So the shopper marketing and the point-of-sale activation, those work will also get a lot of focus. And indeed, if you go to the market now, you will see a much higher level of visibility around the products in the retail stores. So all of these will be genuine areas of investment for us and all serving the objective of driving growth.

Keshav Lahoti: Got it. That is helpful. One last question from my side. As we're starting to see finally the service business is growing by double-digit in booking terms, what is your sense possibly maybe a few quarters down the line, whether the service business can catch up the growth rate what the product business is doing?

Gaurav Khandelwal: Yes. So, the reflection of the bookings will start coming in from Q4 and I think from that period onwards, we expect the service business, which currently creates a lag on the overall growth, for that gap to start getting lower and lower. So, you will start seeing the impact of growth coming in from Q4.

Keshav Lahoti: Got it. My question is more on the product business is still growing by good double-digit, what you highlighted, possibly the service business may be a few quarters down the line we should expect a similar growth on this business also, at least in booking terms?

Gaurav Khandelwal: So yes, I think given the line of sight that we have, I think we are quite confident that the service business will grow in booking terms in value on a double-digit basis. So that is something that we are fairly confident about.

Moderator: Ladies and gentlemen, we will take that as the last question. I now hand the conference over to the management for closing comments.

Pratik Pota: Thank you, and thank you all for joining the call today. I hope that we're able to answer the questions that you pose to us. In case there are any follow-up queries or any doubts, please do feel free to reach out to us, and we'll be happy to respond. Thank you. Have a great day ahead.

Moderator: Thank you. 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

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