

Ethos Ltd

Recommendation	Subscribe for Long Term		BACKGROUND			
Price Band	Rs 836-878		Company Overview			
Bidding Date	18-20 May		Ethos is the India's one of the largest luxury and premium watch retail player having 13% share of the total retail sales in premium and luxury segment and a share of 20% when seen in exclusively luxury segment in the FY20 delivering a content-led luxury retail experience to the customers through online and physical presence.			
Book Running Lead Manager	Emkay, Incred		Ethos's promoter, KDDL Limited, is listed on the BSE and the NSE. Subsequently, the retail business of KDDL was hived off into a Company under the name and style of Kamla Retail Limited in 2008 and it was renamed as Ethos Limited in 2012, in order to consolidate the business of luxury watch retail under one umbrella for better management and focused approach.			
Registrar	KFin Tech		Objects of the Issue			
Sector	Retail		The issue of Rs 469 cr includes Rs 94 cr offer for sale and balance Rs 375 cr fresh issue which would be used for (a) pre-payment of certain borrowings (b) funding working capital requirements (c) establishing new stores and renovation of certain existing stores			
Minimum Retail Application – Details at Cut off Price						
Number of Shares	17		Investment Rationale			
Application Money	14926		<ul style="list-style-type: none"> • Long-Standing Relationships with Luxury Watch brands • Access to large luxury customer base • Leveraging the leadership position of luxury watch market for other luxury segments • Early mover advantage in certified pre-owned business • Improving profitability 			
Discount to retail	NIL		Valuation and Recommendation			
Payment Mode	ASBA, UPI		Going forward, the company is expanding its stores (13 new stores over 50 existing in next three years) and with new categories we believe it can grow strongly. We understand that the company is very small as compared to other listed retail players and focused on one category (currently), we believe that there is scope for growth in future. On current valuations, it looks attractive on EV/EBITDA and EV/Sales basis and therefore, we recommend "Subscribe for Long Term" .			
Consolidated Financials (Rs Cr)		FY20	FY21			
Total Income		458	387			
EBITDA		52	40			
PAT		(1)	6			
Valuations*		Lower Band	Upper Band			
Market Cap (Rs cr)		1952	2050			
EPS		2.5	2.5			
BV/share		85	85			
P/BV		9.9	10.4			
PE		122.1	128.2			
*FY21 numbers, diluted equity						
Post Issue Shareholding Pattern						
Promoters	61.7%					
Public	38.3%					
Offer structure for different categories						
QIB (Including Mutual Fund)	50%					
Non-Institutional	15%					
Retail	35%					
Post Issue Equity Capital (Rs cr)	23.3					
Issue Size (Rs cr)	446-469					
Face Value (Rs)	10					
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Financial Snapshot		FY19	FY20	FY21	9MFY22	
Revenues		444	458	387	419	
%growth*			3%	-16%	153%	
EBIDTA		57	52	40	46	
% margins		12.8%	11.3%	10.3%	10.9%	
Adj. PAT		10	(1)	6	16	
% margins		2.2%	-0.3%	1.5%	3.8%	
EV/EBIDTA @ Rs 878				53.2	34.0	
P/E @ Rs 878				354.4	96.2	
EV/Sales @ Rs 542				5.5	3.7	
*Annualised						

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Company Overview

Ethos is the India’s one of the largest luxury and premium watch retail player having 13% share of the total retail sales in premium and luxury segment and a share of 20% when seen in exclusively luxury segment in the FY20 delivering a content-led luxury retail experience to the customers through online and physical presence.

Ethos’s promoter, KDDL Limited, is listed on the BSE and the NSE. Subsequently, the retail business of KDDL was hived off into a Company under the name and style of Kamla Retail Limited in 2008 and it was renamed as Ethos Limited in 2012, in order to consolidate the business of luxury watch retail under one umbrella for better management and focused approach.

The company has sizeable portfolio of premium and luxury watches in India enabling it to retail 50 premium and luxury watch brands like Omega, IWC Schaffhausen, Jaeger LeCoultre, Panerai, Bvlgari, H. Moser & Cie, Rado, Longines, Baume & Mercier, Oris SA, Corum, Carl F. Bucherer, Tissot, Raymond Weil, Louis Moinet and Balmain. It enjoys a healthy market share of 20% in the luxury watch retail segment and 13% in the premium and luxury watch retail segment in India. (source: *Technopak*). Ethos has an extensive network of 50 (fifty) retail stores spread across 17 cities. In addition to the premium and luxury watch retail, it also undertakes retail of certified pre-owned luxury watches since FY19.

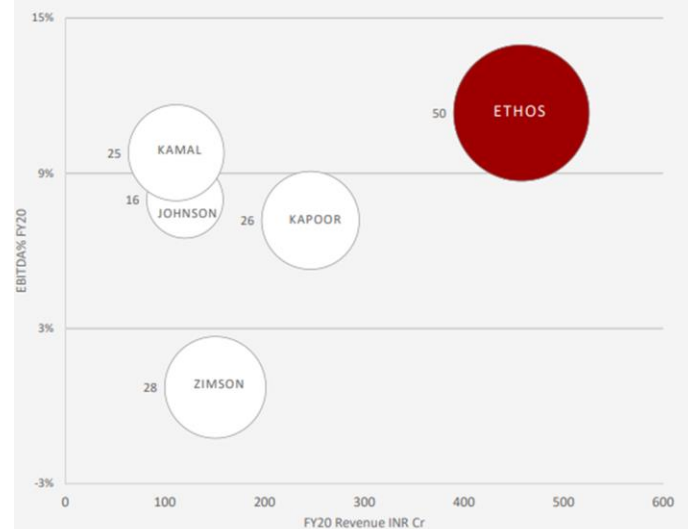
Ethos is the category leader in premium and luxury watch retail in India

Market Shares of Key Vertical Specialist Premium & Luxury Watch MBOs for FY 20

Vertical Specialist Premium & Luxury MBOs	Revenue FY2020 (in INR Cr)	Share in Luxury Watch Market	Share in Premium, & Luxury Watch Market
Ethos	457.8	20%	13%
Kapoor Watch	242.4	10%	7%
Johnson Watch	161.6	7%	4%
Zimson	150.5	6%	4%
Kamal Watch	111.2	5%	3%
Khimani Watch	55.9	2%	2%
Helvetica Boutique	35.7	2%	1%

Ethos clearly dominates in terms of Scale, Profitability and Offering

Size of the sphere represents No. of Brands the company offer



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Investment Rationale

Long-Standing Relationships with Luxury Watch brands

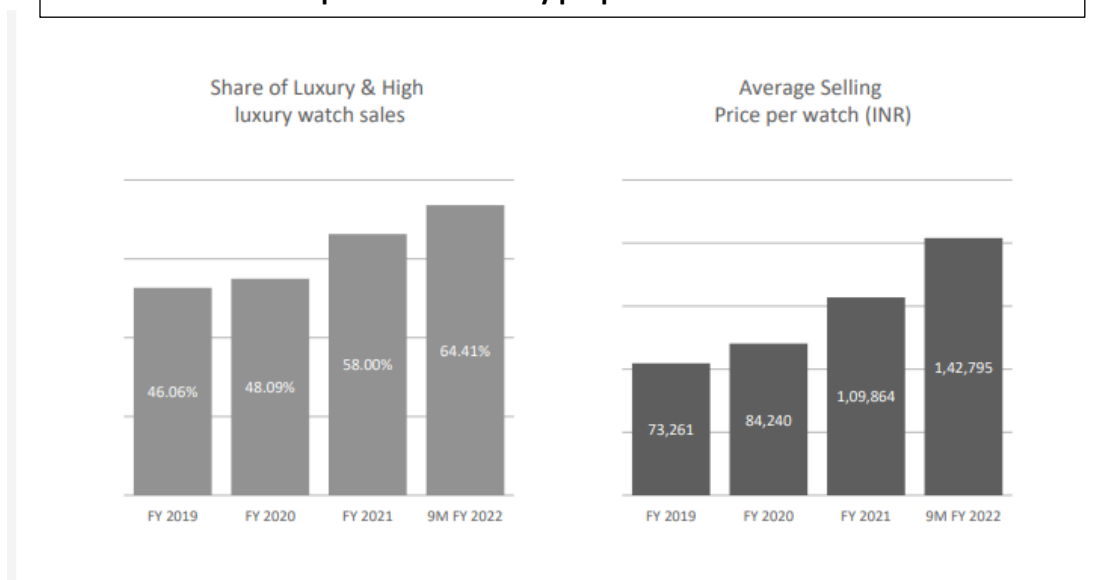
The retailing of luxury watches requires formal approval from the owner of the luxury watch brand to carry a particular product on a store-by-store basis, rather than being allowed to distribute products across an entire business. Brand owners control distribution through strict, selective distribution arrangements, which are limited by geography, are typically granted on a store-by-store basis and contain a wide range of requirements on how their products are to be displayed, how they can be sold. Relationships with owners of luxury watch brands typically take many years to develop and are difficult to replicate. Through its strong and long-standing relationships with the world’s leading luxury watch makers, Ethos is able to make a strong footing in the segment.

Access to large luxury customer base

Ethos has built its customer base over the years and continues to aim to attract new customers to its platform by providing an engaging shopping experience. As of March 31, 2022, the company has access to a HNI customer base of over 2,83,300. Demand for its products is directly proportional to the number of the HNI customers.

Company’s loyalty programme, Club Echo, has also been subscribed by over 2,83,300 registered members which gives a unique insight into understanding the buying pattern of its customers and reward them for their loyalty. Access to a large number of luxury customers gives the company the competitive advantage over its competitors in sale of the products and driving revenue and profitability.

Demand of the products is directly proportional to the number of HNIs



Leveraging the leadership position of luxury watch market for other luxury segments

Ethos has a thorough understanding of the luxury customer and the related environment in India and has a ready database of HNIs in India. It intends to leverage its strength of understanding of the luxury market, customers and products, reputation for authentic, high-end luxury products complemented by consistent customer service to foray into other luxury products in a short to medium term. Through its CPO (certified pre-owned) platform, it has ventured into sale of pre-owned luxury watches and intend to expand into other luxury category goods such as luggage, eyewear, writing instruments, jewellery among other luxury products. It has recently entered into an agreement with Rimowa, for retailing their range of luxury luggage and Messika for retailing their range of luxury Jewellery in India.

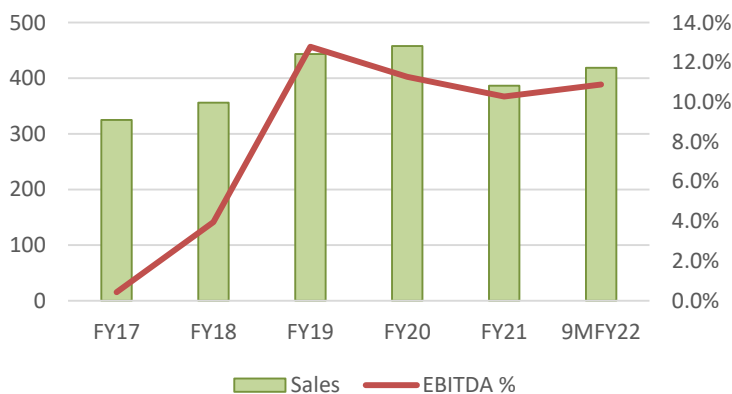
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Early mover advantage in certified pre-owned business

In addition to the premium and luxury watch retail, Ethos also undertakes retail of certified pre-owned luxury watches under ‘Certified Pre-Owned’ (“CPO”) luxury watch lounge located at National Capital Territory of New Delhi. It started its pre-owned luxury watch retail business in FY19. The overall luxury pre-owned market in India was valued at approximately Rs 40 crs -50 crs during FY20, which was largely dominated by the unorganized sector contributing almost 80% of the market. The CPO share in India is currently miniscule. By capitalizing on its existing business experience in luxury watches, CPO business arm of the Company has paved way for the growth of CPO luxury watch market in India.

Improving profitability

Over the years, the company has grown strength by strength and able to leverage its position into increased profitability. Further, post Covid consumption and the company’s Omni channel presence has led to robust rebound in the business and profitability. During Pre-covid times, the company has shown steady sales growth with improvement in margins. Sales bounced back in 9MFY22, as soon as the economy opened up.



The company is repaying ~Rs 30 cr debt from the outstanding ~Rs 87 cr, which would improve the balance sheet and bottom-line of the company. Though the company has high working capital cycle due to higher inventory days, it is nature of the business. Besides, there are usually zero inventory write-off in luxury watch market. Infact, the price of the product actually increases with each passing year. This is because, the owners of luxury watch brands take proactive measures to preserve the exclusivity and rarity value of luxury watches and seek to avoid excess stock in the market. The resulting structural imbalance of supply and demand results in a significant proportion of customers being put on waiting lists for luxury watches from key brands.

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Risks and Concerns

1. **Non-exclusive partnerships:** The Company has not entered into any exclusive arrangement with most of its suppliers. In absence of exclusivity, it may not be able to sell the exclusive products which may not be available with other retailers in India. As a result of increasing competition and absence of exclusive arrangements with the suppliers the pricing could be adversely impacted.
2. **Higher competition from online retailers:** E-tailers that exclusively have only an online presence and no physical presence, may be able to price their products lower by leveraging on their asset light model, while introducing newer products and maintaining quality control.
3. **Seasonality and discretion nature of the business:** The Company is impacted by seasonal variations in sales volumes, which may cause the revenues to vary significantly between different quarters in a Fiscal. Typically, business sees an increase in the business before Diwali and during festive season sales. In addition, due to high end, the business of the company is highly discretion in nature and overall macro-economic situation affects the company like it happened during Covid.

Valuation and Recommendation

The per capita income of India has been showing an increasing trend since 2015; growing at a healthy CAGR of approximately 10%. Per capita income, has a direct co-relation with the overall luxury market in key economies. Due to the growing number of middle- and higher-income households and rising per capita income, consumption of discretionary products is likely to grow.

Going forward, the company is expanding its stores (13 new stores over 50 existing in next three years) and with new categories we believe it can grow strongly. Though there is no direct competitor among the listed players, we have compared with following players on the basis of retailing nature of the business. We understand that the company is very small as compared to other listed retail players and focused on one category (currently), we believe that there is scope for growth in future. Therefore, we recommend **“Subscribe for Long Term”**.

	Titan			Trent			Nykaa			Ethos		
	FY20	FY21	9MFY22	FY20	FY21	9MFY22	FY20	FY21	9MFY22	FY20	FY21	9MFY22
Revenue - Rs cr	21052	21644	21003	3486	2593	3169	1768	2441	2801	458	387	419
Growth	6%	3%	148%	33%	-26%	88%	59%	38%	65%	3%	-16%	153%
EBITDA margins	12%	8%	12%	15%	7%	8%	5%	7%	4%	11%	10%	11%
PBT Margins	10%	6%	5%	6%	-5%	10%	-1%	3%	2%	0%	2%	5%
PAT Margins	7%	5%	3%	3%	-7%	2%	-1%	3%	1%	0%	1%	4%
ROE	22.4%	13.0%		4.3%	-7.7%		-5.0%	12.7%		-0.9%	3.7%	
EV/Sales	8.7	8.4	6.5	10.3	13.9	8.5	35.1	25.4	16.6	4.5	5.4	3.7
EV/EBITDA	74.1	106.7	53.8	66.8	209.5	61.5	765.5	385.1	372.8	40.4	52.4	34.3

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FINANCIALS

P&L (Rs. Cr)	FY19	FY20	FY21	9MFY22
Net Revenue	444	458	387	419
% Growth		3%	-16%	
COGS	315	329	282	300
<i>% of Revenues</i>	71.1%	71.9%	72.9%	71.8%
<i>Gross Profit %</i>	28.9%	28.1%	27.1%	28.2%
Employee Cost	33	33	29	31
<i>% of Revenues</i>	7.5%	7.2%	7.6%	7.4%
Other expenses	38	44	36	42
<i>% of Revenues</i>	8.6%	9.6%	9.3%	10.0%
EBITDA	57	52	40	46
EBITDA Margin	12.8%	11.3%	10.3%	10.9%
Depreciation	26	33	31	23
Other Income	2	3	17	11
Interest	16	20	17	12
Share of PAT (Invst)	-	(0)	0	(0)
Exceptional gain				
PBT	16	2	8	22
Tax	7	3	2	6
<i>Tax rate</i>	40%	170%	29%	26%
PAT	10	(1)	6	16
% Growth				
EPS (Post Issue)	4.2	(0.6)	2.5	6.8
Performance Ratios	FY19	FY20	FY21	9MFY22
EBITDA Margin (%)	12.8%	11.3%	10.3%	10.9%
PAT Margin (%)	2.2%	-0.3%	1.5%	3.8%
ROE (%)	7.6%	-0.9%	3.7%	8.1%
ROCE (%)	15.7%	9.6%	12.1%	11.8%
Net D/E (x)	0.5	0.4	0.2	0.1
Turnover Ratios	FY16	FY17	FY21	9MFY22
Debtors Days	7	7	11	6
Inventory Days	167	172	184	155
Creditor Days	55	57	67	54
Asset Turnover (x)	2.1	2.0	1.9	2.0
Valuation Ratios	FY19	FY20	FY21	9MFY22
Price/Earnings (x)			354.4	96.2
EV/EBITDA (x)			53.2	34.0
Price/BV (x)			13.7	10.4
Mkt cap/Sales (x)			5.3	3.7
EV/Sales (x)			5.5	3.7

Source: Company Data, NBRR

Balance Sheet (Rs. Cr)	FY19	FY20	FY21	9MFY22
Share Capital	17	18	18	19
Reserve & Surplus	114	132	137	179
Non Controlling Int	-	-	-	-
Networth	130	150	156	198
Total Loans	77	76	52	87
Lease Liabilities	72	99	88	93
Tax Liabilities	3	0	1	2
Trade payable	68	72	72	83
Total provisions	2	4	4	4
Total Current Liab.	89	98	96	116
Total Equity & Liab.	369	422	392	494
Fixed Assets & CWIP	94	126	114	118
Goodwill				
Deff Tax Assets	8	8	9	9
Other non Curr. assets	14	12	12	15
Investments in JV	-	1	1	2
Cash	9	11	21	74
Inventories	206	219	198	240
Debtors	9	9	12	10
Other Current assets	29	37	26	27
Total Assets	369	422	392	494
Cash Flow (Rs. Cr)	FY19	FY20	FY21	9MFY22
EBITDA	57	52	40	46
Provisions & Others	0	3	0	1
Op. profit before WC	57	55	40	46
Change in WC	(51)	(12)	26	(23)
Less: Tax	(7)	(6)	(3)	(5)
CF from operations	(1)	37	63	19
Addition to assets	(13)	(13)	(9)	(7)
(Purchase)/Sale of invst.	1	(1)	(1)	(11)
Div/Int Received	0	0	0	0
CF from Investing	(12)	(15)	(10)	(18)
Debt repayment	0	(22)	(29)	27
Dividend Paid	-	-	-	-
Interest Paid	(16)	(19)	(16)	(11)
Equity	29	21	-	26
CF from Financing	13	(20)	(45)	42
Net Change in cash	0	2	8	43
Cash at beginning	7	8	10	18
Exchange difference				
Cash at end	8	10	18	61

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