

## Company Overview

Ethos Limited is the largest luxury and premium watch retailer in India. The company delivers premium luxury watches through websites, social media platforms and physical stores. Ethos Limited operates on an omnichannel model and allows customers to order products either offline or online and have the flexibility of buying products at one store and returning at another or browsing product catalogues and placing orders online with doorstep delivery. The company's watch portfolio has 50 premium brands including 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. The company has 50 physical retail stores in 17 cities in India including New Delhi Mumbai, Bengaluru, Hyderabad, Chennai, Kolkata, Chandigarh, Ahmedabad, Jaipur, Lucknow, Gurgaon, Guwahati, Ludhiana, Nagpur, Noida, Pune and Thane. Ethos Limited has 7,000 different premium watches and 30,000 watches in stock at any given time.

## Objects of the issue

The net proceeds of the Fresh Issue are proposed to be utilised as:

- ▢ Repayment or pre-payment, in full or in part, of all or certain borrowings availed by the company;
- ▢ Funding working capital requirements of the company
- ▢ Financing the establishment of new stores and renovation of the certain existing stores
- ▢ Financing the upgradation of ERP
- ▢ General Corporate Purposes

## Investment Rationale

### Strategically located and well-invested store network with an attractive in-store experience

The company has 50 retail stores, over 7,000 varied premium and luxury watches and about 30,000 watches in stock at any given time, their retail stores are located strategically in shopping malls, airport terminals and other premium areas. The company believe that the prime locations that their Company chooses for its stores in the growing Indian luxury watch markets, the investments that they have made in these stores, the selection of products that they are able to offer to its customers in-store, the presentation of products within the stores, the quality of their staff and the service that company offer to their customers will continue to help their Company to increase sales of luxury watches. Ethos flagship stores are high-street stores allowing lower mall dependency for them, which proved to be a massive structural advantage, especially during the pandemic year, when all the shopping malls were directed to be closed down. For 9MFY22, FY21, FY20 and FY19, The company Capex on opening new stores and refurbishing old ones was INR 60.8mn, INR108,8mn, INR137.9mn and INR139.5mn, respectively.

### Strong and long-standing relationships with luxury watch brands and luxury groups

Ethos views themselves as brand custodians and applies a client-servicing mindset to their interactions with brands to ensure they are building long-term strategic relationships. 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. The manufacturing of key luxury watch brands is highly concentrated among a limited number of brand owners that are primarily based in Switzerland. Relationships with owners of luxury watch brands typically take many years to develop and are difficult to replicate. The company has been immensely benefitted from their Promoter's long standing relationships with luxury watch brands, developed over the years. Further, through their strong and long-standing relationships with the world's leading luxury watch makers, Ethos is able to offer its customers the respected luxury watches brands in the world.

## Valuation and Outlook

Ethos is the largest retailer for luxury watches in India commanding a 20% market share of the organized market for luxury watch retail in India. They have the sizeable portfolio of premium and luxury watches in India enabling them to retail 50 premium and luxury watch brands. Ethos benefits from strong levels of domestic demand for luxury watches. Brands command significant pricing power, which has enabled them to raise the list prices of their products almost every year and to carefully monitor and control potential arbitrage across regions. The company derives significant benefits from the tendency of consumers in the luxury watch markets to become repeat customers and span age and income groups. The company's understanding of the luxury customers has enabled them to evolve their luxury customer base, enabling them to drive the sales of their luxury and high luxury watches. Their networks of retail stores allow them to cater to a large section of consumers and ensure effective penetration of the luxury watch brands that they retail. At the upper end of the price band, the issue is valued at a P/E of 96x based on FY22 annualized sales, which we believe is aggressively priced. As we are witnessing the negative market sentiment towards the expensively valued stocks, we suggest investors to "Avoid" this issue.

## Issue Details

Offer Period	18 <sup>th</sup> May - 20 <sup>th</sup> May 2022
Price Band	INR.836 to INR.878
Bid Lot	17
Listing	BSE&NSE
Issue Size (no. of shares in mn)	5.38
Issue Size (INR. in bn)	4.72
Face Value	10

## Issue Structure

QIB	50 %
NIB	15 %
Retail	35 %
BRLM	Emkay Global Fin Incred Capital
Registrar	KFin Technologies Ltd.

Particulars	Pre Issue %	Post Issue %
Promoters	77.52%	59.81%
Pro-moterGroup	3.49%	1.84%
Public –	0.77%	0.42%
Public	18.22%	37.92%
<b>Total</b>	<b>100%</b>	<b>100%</b>

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



## Income Statement (In mn)

Particulars	FY19	FY20	FY21	9MFY22
<b>Revenue</b>				
Revenue from operations	4,435	4,578	3,866	4,186
<b>Total Revenue</b>	<b>4,435</b>	<b>4,578</b>	<b>3,866</b>	<b>4,186</b>
<b>Expenses</b>				
Purchase of stock-in-trade	3,499	3,421	2,608	3,422
Changes in inventory of stock-in-trade	(345)	(130)	208	(419)
Employee benefit expenses	331	332	292	309
Other expenses	384	441	360	418
<b>Total Operating Expenses</b>	<b>3,868</b>	<b>4,063</b>	<b>3,468</b>	<b>3,730</b>
<b>EBITDA</b>	<b>567</b>	<b>516</b>	<b>397</b>	<b>456</b>
Depreciation and amortisation expense	257	328	314	228
Other income	16	32	166	108
<b>EBIT</b>	<b>326</b>	<b>219</b>	<b>249</b>	<b>336</b>
Finance Costs	161	196	170	119
<b>Profit before tax</b>	<b>165</b>	<b>23</b>	<b>80</b>	<b>216</b>
Current tax	98	32	29	63
Deferred Tax Charge/ (charge)	(32)	1	(6)	(7)
<b>Total Tax</b>	<b>66</b>	<b>33</b>	<b>23</b>	<b>56</b>
<b>PAT</b>	<b>99</b>	<b>(10)</b>	<b>57</b>	<b>160</b>
<b>Diluted EPS</b>	<b>4.2</b>	<b>(0.4)</b>	<b>2.4</b>	<b>6.9</b>

Source: RHP, BP Equities Research

## Cash Flow Statement (In mn)

Particulars	FY19	FY20	FY21	9MFY22
Cash flow from operating activities	(12)	370	635	186
Cash flow from investing activities	(119)	(146)	(100)	(176)
Cash flow from financing activities	133	(202)	(450)	421
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>3</b>	<b>23</b>	<b>85</b>	<b>431</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>73</b>	<b>76</b>	<b>98</b>	<b>183</b>
<b>Cash and cash equivalents on acquisition of subsidiary</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>76</b>	<b>98</b>	<b>183</b>	<b>614</b>

Source: RHP, BP Equities Research



## Balance Sheet (In mn)

Particulars	FY19	FY20	FY21	9MFY22
<b>Liabilities</b>				
Share capital	169	182	182	188
Other equity	1,135	1,317	1,374	1,793
<b>Net worth</b>	<b>1,304</b>	<b>1,499</b>	<b>1,556</b>	<b>1,981</b>
Borrowings	162	158	171	233
Lease liabilities	530	796	689	713
Other financial liabilities	5	9	9	5
Provisions	11	13	16	13
<b>Total Non current liabilities</b>	<b>707</b>	<b>976</b>	<b>884</b>	<b>963</b>
Borrowings	609	600	349	635
Lease liabilities	190	189	191	216
Trade payables	676	724	720	839
Other financial liabilities	93	98	97	105
Other current liabilities	65	106	92	151
Provisions	14	24	25	29
Liabilities for current tax (net)	31	4	6	21
<b>Total Current liabilities</b>	<b>1,678</b>	<b>1,744</b>	<b>1,480</b>	<b>1,996</b>
<b>Total Liabilities</b>	<b>3,689</b>	<b>4,220</b>	<b>3,920</b>	<b>4,940</b>
<b>Assets</b>				
Property, plant & equipment	212	306	307	351
Right-of-use asset	679	934	793	817
Capital work in progress	44	7	38	3
Other intangible assets	6	8	6	6
<b>Intangible assets under development</b>	<b>4</b>	<b>1</b>	<b>1</b>	<b>-</b>
<b>Investment in joint venture</b>	<b>-</b>	<b>7</b>	<b>8</b>	<b>15</b>
Financial assets				
(i) Loans	1	0	1	1
(ii) Other financial assets	102	84	89	117
Deferred tax assets (net)	82	81	87	93
Non current tax assets (net)	12	14	15	15
Other non-current assets	30	21	12	20
<b>Total Non Current Assets</b>	<b>1,171</b>	<b>1,463</b>	<b>1,355</b>	<b>1,438</b>
Inventories	2,056	2,186	1,978	2,396
Trade receivables	89	94	122	99
Cash and cash equivalents	76	98	183	614
Bank balances other than above	12	11	22	122
Loans	1	1	2	3
Other financial assets	68	128	101	75
Others current assets	216	238	158	193
<b>Total Current Assets</b>	<b>2,518</b>	<b>2,757</b>	<b>2,565</b>	<b>3,501</b>
<b>Net Current Assets</b>	<b>2,350</b>	<b>2,582</b>	<b>2,417</b>	<b>3,302</b>
<b>Total Assets</b>	<b>3,689</b>	<b>4,220</b>	<b>3,920</b>	<b>4,940</b>

Source: RHP, BP Equities Research

**Key Risks**

- ⇒ Most of their suppliers works with is on a non-exclusive basis, in absence of exclusivity with their suppliers they may be subject to competition from the entities which may have more resources than themselves.
- ⇒ Their inability to identify customer demand accurately and maintain an optimal level of inventory in their stores may impact their operations adversely.
- ⇒ The company have been subject to various litigation, regulatory and other proceedings and same are pending at various level of adjudication.



Research Desk

Tel: +91 22 61596406

Institutional Sales Desk

Tel: +91 22 61596403/04/05

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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**Corporate Office:**

4th floor,  
Rustom Bldg,  
29, Veer Nariman Road, Fort,  
Mumbai-400001  
Phone- +91 22 6159 6464  
Fax-+91 22 6159 6160  
Website- [www.bpwealth.com](http://www.bpwealth.com)

**Registered Office:**

24/26, 1st Floor, Cama Building,  
Dalal street, Fort,  
Mumbai-400001  
BP Wealth Management Pvt. Ltd.  
CIN No: U67190MH2005PTC154591  
BP Equities Pvt. Ltd.  
CIN No: U67120MH1997PTC107392