

Initiating Coverage

Ethos Ltd.

February 13, 2023





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Retail	Rs. 1009	Buy in Rs 1001-1020 band and add more on dips in Rs 872-886 band	Rs.1125	Rs. 1227	2-3 quarters

HDFC Scrip Code	ETHOSLTD
BSE Code	543532
NSE Code	ETHOSLTD
Bloomberg	ETHOSLTD IN
CMP (Feb 10, 2023)	1009
Equity Capital (RsCr)	23.3
Face Value (Rs)	10
Equity Share O/S (Cr)	2.3
Market Cap (RsCr)	2356
Book Value (Rs)	232
Avg. 52 Wk Volumes	84456
52 Week High	1147
52 Week Low	707

Share holding Pattern % (December, 2022)	
Promoters	64.68
Institutions	20.02
Non Institutions	15.3
Total	100.0



HDFCsec Retail research
stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Ethos Limited (Ethos) is India's largest luxury and premium watch retail player having market share of ~20% in the luxury watch retail segment and ~13% in the premium and luxury watch retail segment in India. In addition to their chain of 50 physical retail stores in 17 cities across India, Ethos offers an omni-channel experience to its customers through website and social media platforms. Its website "www.ethoswatches.com" is India's largest website for premium and luxury watches in terms of the number of brands and watches offered. Ethos has a sizeable portfolio of premium and luxury watches in India enabling them to retail ~61 premium and luxury watch brands including Rolex, 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. Relationships with luxury brands typically take many years to develop and are difficult to replicate. Ethos' strong relationships with top luxury brands provide a wide moat for its business. Club Echo is the loyalty program of Ethos with 2.85 lakh registered members as on March 2022, and annually ~40% business comes from repeat buyers registered with the program.

India's watch market is likely to grow at 10.6% CAGR to reach Rs. 22,300 Cr by 2025. On the other hand, premium and luxury segments are growing faster than other segments at a CAGR of 12.9%, driven by faster urbanisation, aspirational lifestyles and growing disposable incomes. These are long-term tailwinds, which may continue to strengthen the company's business.

Apart from premium and luxury watch retail, Ethos also undertakes retail of pre-owned luxury watches under the 'certified pre-owned' (CPO) luxury watch lounge located in New Delhi and has plans to expand into other luxury categories through its agreements with global luxury luggage/jewellery brands Rimowa/ Messika.

Going ahead, Ethos' strategy is to improve assortment for existing brands as well as bring new brands to India through exclusive partnerships or otherwise, expand retail presence with 40 new stores over next two years and scale-up complimentary channels of CPO/ other luxury categories.

Valuation & Recommendation:

Going ahead, we expect Ethos to report revenue/EBITDA/PAT CAGR of 30%/39%/62% over FY22-25E. The growth is to be driven by improvement in realisation and same store sales growth (SSG) rate, new store additions and increasing contribution from CPO business. The long-term growth tailwinds for luxury watch industry in India coupled with Ethos' dominant position in the luxury retail watch market



makes Ethos an attractive long term bet in our opinion. Given the aggressive store additions (~40) over the next two years and requisite inventory build-up, the return profile of Ethos in the near term may appear modest. However, favourable long term macroeconomic factors, portfolio of best-in-class brands and management’s strong execution track record should lead to higher operating efficiencies over medium to long term.

We think the base case fair value of the stock is Rs. 1125 (28x Dec’24E EPS) and the bull case fair value of is Rs 1227 (30.5x Dec’24E EPS). Investors can buy the stock in Rs 1001-1020 band (25x Dec’24E EPS) and add more on dips in Rs. 872-886 (22x Dec’24E EPS).

Financial Summary

Particulars (Rs in Cr.)	Q3FY23	Q3FY22	YoY-%	Q2FY23	QoQ-%	FY22	FY23E	FY24E	FY25E
Operating Income	230	195	18%	177	30%	577	777	997	1,266
EBITDA	36	26	38%	25	41%	67	113	139	179
Reported PAT	21	12	71%	14	52%	23	57	76	100
Reported EPS (Rs)	9.5	6.6	45%	6.6	45%	12.2	24.2	32.7	42.8
RoE-%						12.0	13.2	11.5	13.2
P/E (x)						82	42	31	24
EV/EBITDA						29	14	11	8

(Source: Company, HDFC sec)

Q3FY23 result key takeaways

Ethos’ performance in Q3FY23 was ahead of expectations as it recorded its highest revenue and PAT on the back of robust demand and focused marketing initiatives. Same-Store Sales Growth (SSG) for the quarter stood at impressive 16%. Omni-channel strategy has resulted in strong growth offline as well as online. EBITDA margins expanded by +202 bps/ +95 bps on YoY/QoQ on the back of cost optimization initiatives and operating leverage benefits. Higher share of in-house brand sales continue to improve margin profile. Additionally, the company had spent Rs ~2 cr on Grand Prix d’Horlogerie de Genève (GPHG) which was a non-sales event. Adjusting for one-off costs related to the GPHG event, EBITDA margin improvement was 270bps. Inventory days stayed low, at ~153 days at end December 2022 (vs. 175-180 historically). Cash and cash equivalent stood at Rs.253.33 Cr as on 31st December, 2022.

During Q3FY23, company signed an exclusive distribution with leading watch brands; SPEAKE-MARIN, Bell & Ross, Trilobe and Tutima. Noticeably, Bell & Ross was already being retailed at other retailers in India, but has signed an exclusive distribution agreement with Ethos now. The management has maintained its target to open 40 stores in coming 24 months.



Key Triggers:

Strong and long-standing relationships with luxury watch brands

Ethos views itself as brand custodian 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. Ethos has immensely benefitted from its promoter's (KDDL) long standing relationships with luxury watch brands, developed over the years. Further, through its strong and long-standing relationships with the world's leading luxury watch makers, Ethos is able to offer its customers some of the most exclusive luxury watch brands in the world.

Increasing the watch brands portfolio - Ethos endeavours to improve sales and hence create value for its brand relationships through improved merchandising, refined marketing and new data driven brand specific experiences. It wants to ensure that its platform maintains its position as a go-to premium and luxury watch retail destination for its diverse brand relationships. Many of the world's leading watch brands are not yet present in India and Ethos intends to partner with them and bring these brands to India. In addition to increasing their brand portfolio, the company also intends to enter into and increase its exclusive arrangements for sale and marketing of premium and luxury watch brands in India.

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

With 50 retail stores, over 7,000 varied premium and luxury watches and about 30,000 watches in stock at any given time, company's retail stores are located strategically in shopping malls, airport terminals and other premium areas. Its 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. The company's networks of retail stores allows it to cater to a large section of consumers and ensure effective penetration of the luxury watch brands that they retail. The stores are categorized into Ethos Summit Stores, Ethos Multi Brand Outlets (MBOs), Ethos Exclusive Brand Outlets (EBOs) and Second Movement Lounge.

Leading luxury watch Omni-channel retail player of India

Ethos was quick to establish a robust digital infrastructure which has been their key strength and enabled them to scale business and increase its customer base. Its digital team consists of over 70 employees across different teams, including performance marketing, creative, content, social media, product/website, technology and internet sales among others. The company's website showcases over 50



brands, offering a great eco-system for visitors to not only purchase these watches online but also to discover watches, and understand their legacies. Ethos uses data collected across its channels to re-market to the customers who have shown interest in its website across the popular networks and social media platforms to remain top-of-mind for their customers.

By giving its consumers both physical and digital shopping experiences through its Omnichannel model, Ethos wants to remain relevant at all the touchpoints of a consumer's journey. The company's website is custom-built with content rich, high-quality images and videos. Through its team responsible for e-commerce and web design, Ethos has created landing pages for each of its luxury brands, with distinctive brand imagery.

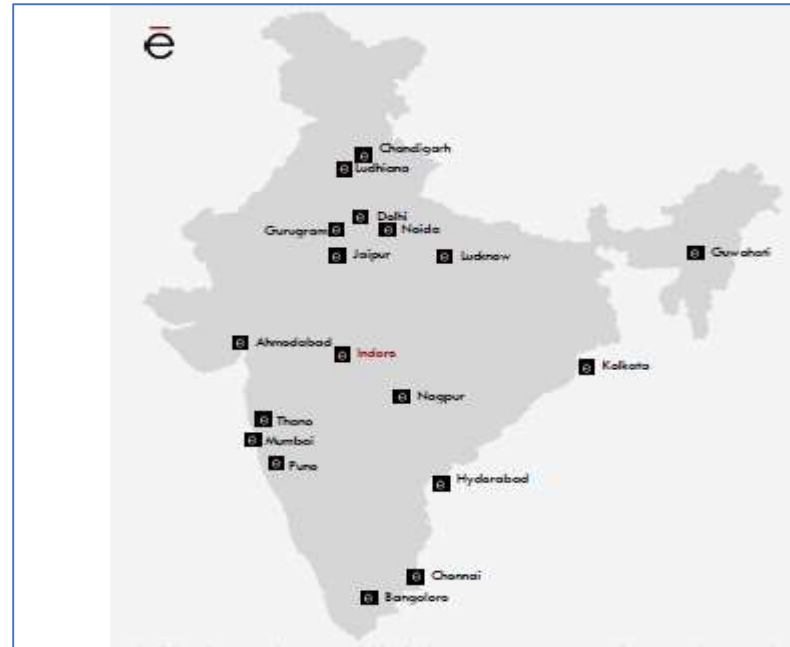
On the company's website, visitors are assigned trained watch consultants, who help the customers to choose from the wide array of choices available. Ethos gives its customers the ability to shop online or to touch and feel their shortlisted watches in the comfort of their homes or at one of its physical stores. As the company's offline and online channels are integrated, customers can place orders for 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.

Their in-store channel allows customers to order products online and fulfilled by its store. Its online channels offer customers the ability to (i) purchase online with home delivery, (ii) book a viewing in-store or at home or office, and (iii) services to collect the product in-store.

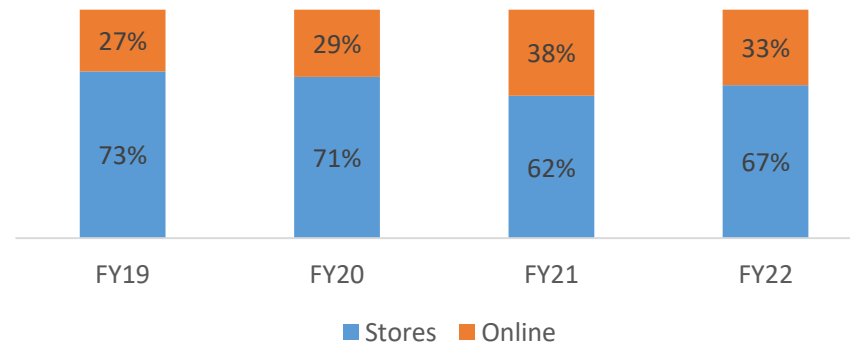
Strong after-sales-services gives an edge: Company's after-sales services include repairs, restoration, overhauling, ultrasonic cleaning, engraving, and adjustments. Ethos's cutting-edge Service Centre, 'Ethos Watch Care,' based in New Delhi is equipped with the latest technology and advanced equipment primarily imported from Switzerland. It is manned by horological watch technicians with extensive work experience across major international luxury watch brands and have certificates from brands such as Omega, Tissot, Longines, Rado, and other global names.



Ethos' store network



Ethos' has build strong omni-channel presence

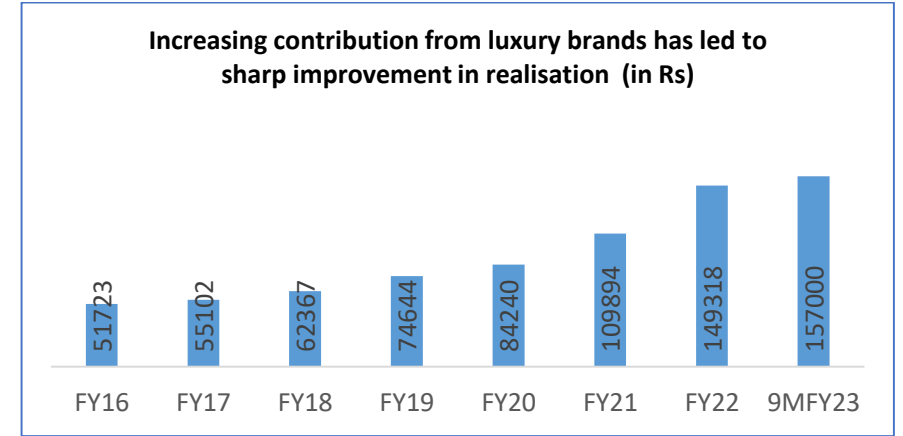
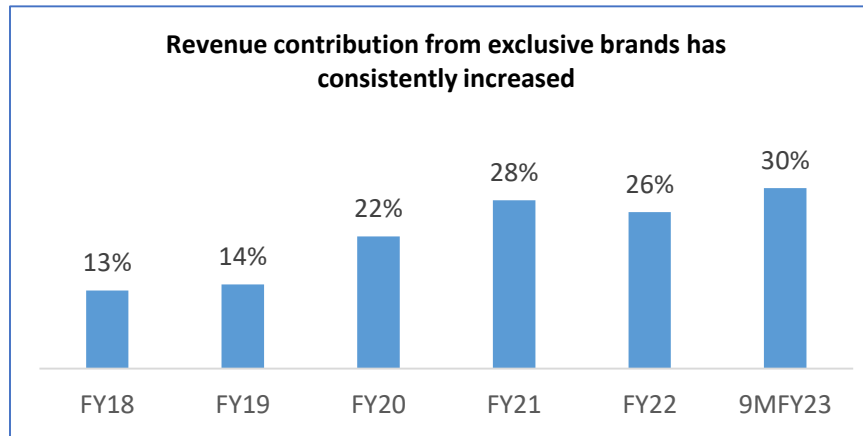


(Source: Company, HDFC sec)



Leadership position in an attractive luxury watch market

Ethos is the largest retailer for luxury watches in India commanding ~20% market share of the organised market for luxury watch retail in India. It has sizeable portfolio of premium and luxury watches in India enabling them to retail 61 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 retailer margins on premium watches ranges from 20% - 25%, while retailer margins on bridge to luxury segment ranges from 25% - 28%, and luxury & above segments have a retailer margin of 20% - 35%. The fact that luxury and above watch segments demand better margins allows to have better profitability in sale of high value luxury and above category. 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.



(Source: Company, HDFC sec)

Some of the brands exclusively available with Ethos include...



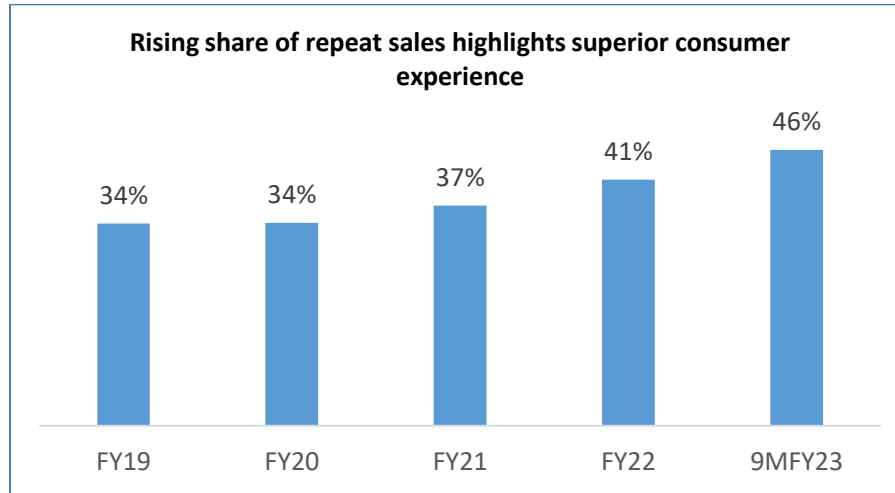
Exclusive brand stores operated by Ethos

Brand EBO Partnership	No. of EBOs	Cities
Girard Perregaux	1	National Capital Territory of Delhi
Hublot	1	Mumbai
Jaeger-LeCoultre	1	National Capital Territory of Delhi
Omega	3	Chennai, Jaipur, Mumbai
Oris	1	Chennai
Panerai	1	National Capital Territory of Delhi
Rado	6	Ahmedabad, Chandigarh, Jaipur, Lucknow, Territory of Delhi, Mumbai
Rolex	2	Bangalore, National Capital Territory
Seiko	1	Bangalore
Tissot	1	National Capital Territory of Delhi

(Source: Company, HDFC sec)

Club ECHO: Company's loyalty programme 'Club Echo' is a customer relationship management initiative for providing them with a rewarding experience in luxury retail category. Club Echo operates as a dynamic incentive scheme which provides benefits to repeat customers based on their cumulative purchasing over time. The database generated via Club Echo gives them access to important information on customers and their buying trends which further enables them to design appropriate reward and communication strategies leading to greater satisfaction and commitment. Ethos' Club Echo outbound call centre stationed at marketing office at Mohali, Punjab helps the company to establish direct contact with customers and pitch occasion specific offers to them over the phone.

Club ECHO had more than ~285,000 registered members as of March 31, 2022. Company had repeat buying of 41% during FY22 which further improved to 46% in H1FY23. This shows a great customer recall in response to the great services and assortment Ethos provides to its customers.



(Source: Company, HDFC sec)

Access to large customer base: As per the 'Industry Report on Premium and Luxury Watch Retail in India dated April, 2022, prepared by Technopak Advisors Private Limited', the increase in the number of HNIs in fast emerging economies, such as China and India, has facilitated the increase of the wealth of people and thereby increasing the demand for luxury goods, including watches. Rise and acceptability of ecommerce and an increase in HNIs/UHNIs have led to an increase in the purchase of luxury watches via online channels in such markets. As of March 31, 2022, Ethos has access to an HNI customer base of 283,300, and access to its digital platform has also increased from 15.47mn sessions in FY19 to 18.51mn sessions in 9MFY23. Ethos believes access to a large number of luxury customers gives it a competitive advantage.

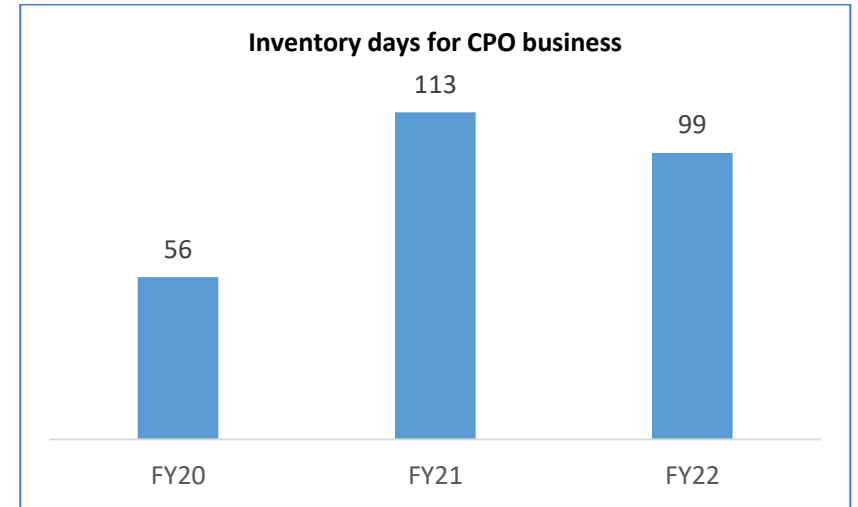
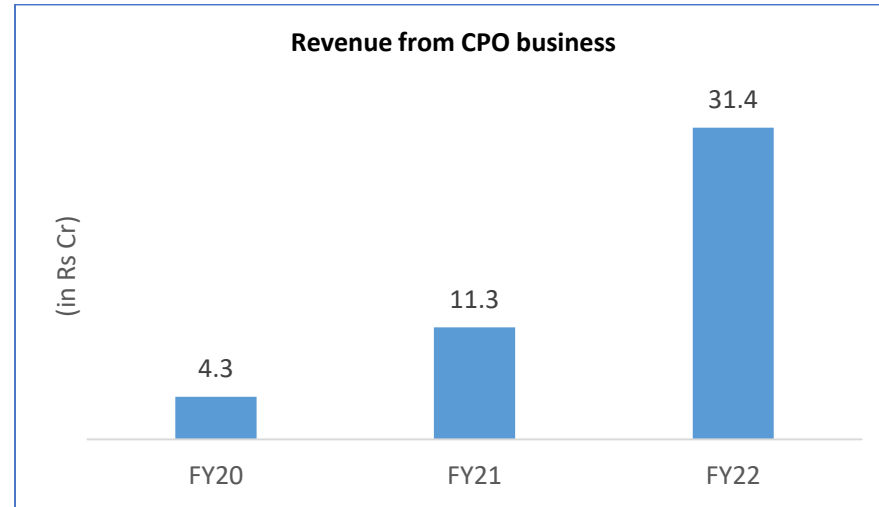
Early mover advantage in certified pre-owned business

In addition to their 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 New Delhi. CPO is a destination for selling and buying pre-owned luxury watches under technical expert supervision providing a 360-degree physical inspection and verification of watches and certified with a 2 year warranty.

The global CPO luxury watch market was valued at USD 18 bn in CY20 and is expected to grow at a CAGR of 9% from CY19-CY25P to reach USD 27 bn. The adoption of the second-hand luxury watch market is emerging as one of the key reasons for growth and acceptance of luxury watches globally. The overall luxury pre-owned market in India was valued at approximately Rs 40 Cr - Rs 50 Cr during FY20, which was largely dominated by the unorganised sector contributing almost 80% of the market. The organized sector offering certification on pre-owned luxury watches is at a nascent stage in India and was valued at Rs 10-15 Cr in FY20. In comparison, the overall premium &



luxury watch market in India was valued at Rs 6,610 Cr in FY20, making the CPO market to be around 0.2% of the overall market. The CPO share in India is currently miniscule and dominated by Ethos' CPO business. This market, however, presents an opportunity to grow significantly from the current base, in line with the global trends.



(Source: Company, HDFC sec)

First mover advantage: Since Ethos is the only company with a pan-India presence to source watches, it has the first mover advantage in this quickly expanding business segment. The website for the business, <https://www.secondmovement.com> has already received 100,000 visitors. In the past year, the company has diligently trained 17 watchmakers, and they are now in a position to expand the business quickly. In comparison to FY21, the company's business increased by ~3 times in FY22. In order to continue driving robust growth in the pre-owned business, Ethos plans to expand its footprint and website to four to five major cities in India over the course of the next two years.

Leveraging the luxury watch retail business and access to luxury customers to expand into other luxury verticals

For category specialists in the luxury segment, growth through category extension is expected. There is a potential for current vertical specialists to expand into adjacent luxury offerings like hard luxury in various product categories. Ethos has a thorough understanding of the luxury customer and the related environment in India and has a ready database of HNIs in India. All of its retail platforms are well maintained and appeal to customers interested in purchasing luxury products. The company intends to leverage its strength of understanding of the luxury market, customers and products, reputation for authentic, high-end luxury products. Through its CPO



platform, Ethos has ventured into sale of pre-owned luxury watches and intend to expand into other luxury category goods including luggage, eye-wear, writing instruments and jewellery. Ethos has recently entered into an agreement with Rimowa, for retailing its range of luxury luggage and Messika for retailing their range of luxury jewellery in India.

Financial Summary

Ethos' strategy for continued growth and market share gain is focused on the following:

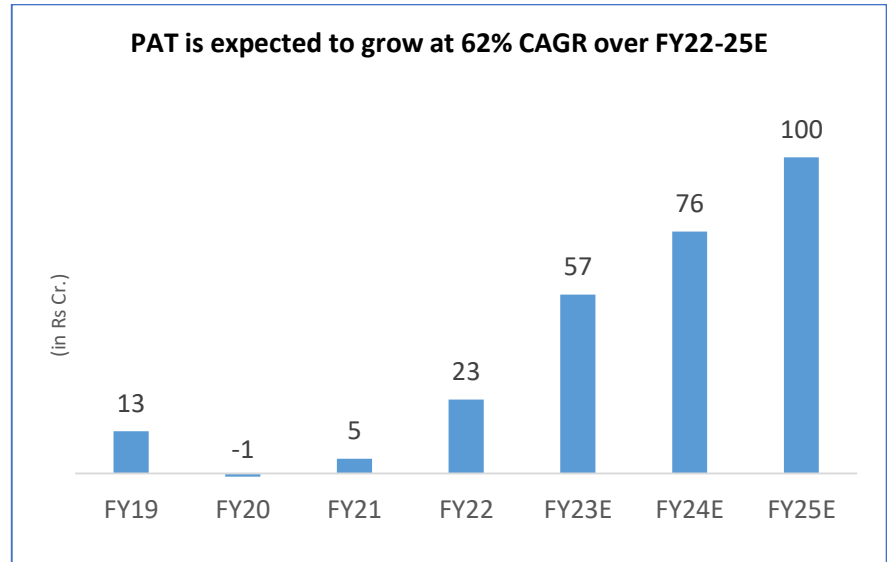
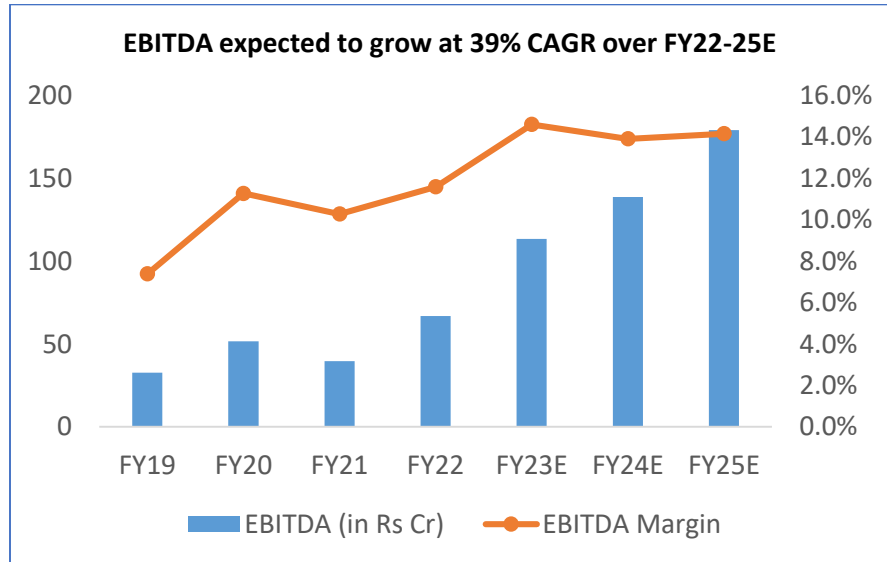
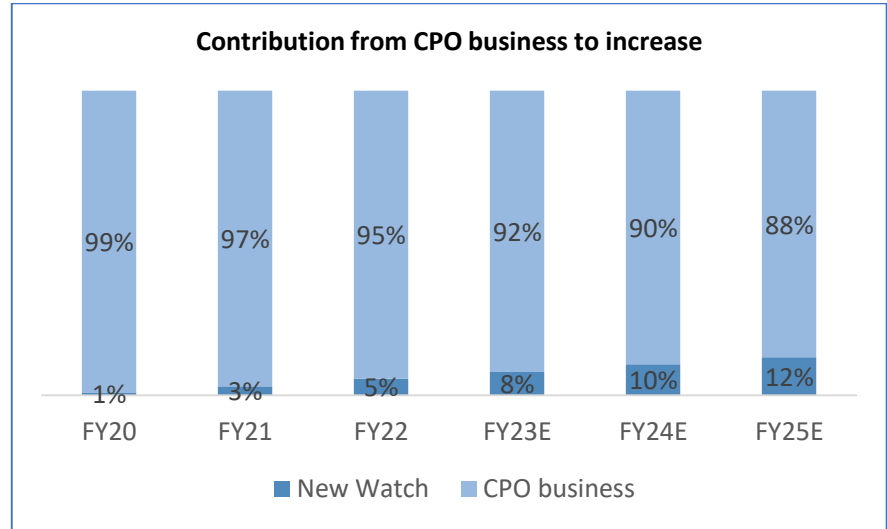
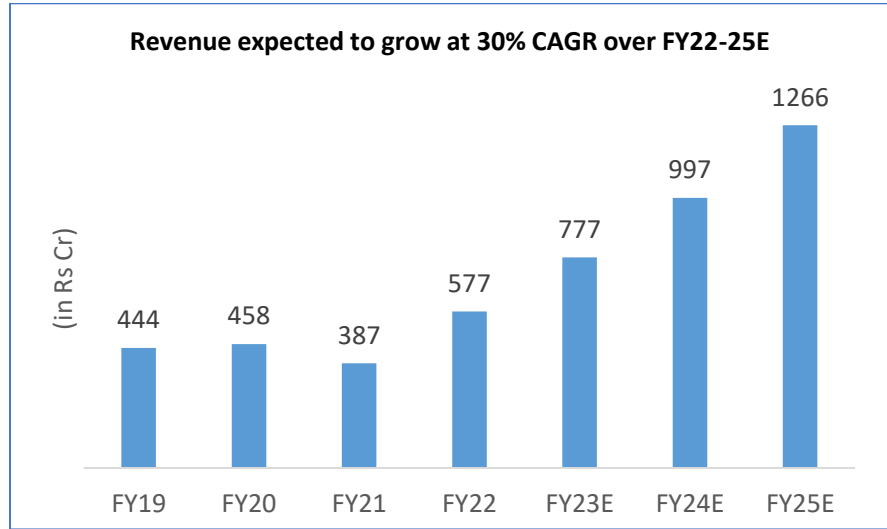
- Successfully executing its pipeline of new store projects, as well as identifying attractive locations for opening new company-branded stores or mono-brand stores or relocating existing stores and continuing to upgrade its existing stores as and when necessary
- Growing sales and improving margins in its existing stores and via the online channel through product, merchandising, marketing, training, logistics and technological initiatives
- Proactively managing its store portfolio to improve operating margins

Ethos' average selling price (ASP) has increased from Rs 74,644 in FY19 to Rs. 1,57,000 in 9MFY23, led by increase in mix of luxury and high luxury watch categories.

CPO – Ethos being the only organised player and MBO-led luxury watch player in India with the capability of certifying, buying and restoring pre-owned watches, it witnessed a threefold growth in revenues from CPO division. It plans to expand its footprint and website to four to five major cities in India over the course of the next two years. Being the only player in fast growing CPO watch market, we expect the company to report 65% CAGR revenue growth over 3 years on small base. Additionally, while increasing contribution from CPO is margin dilutive, return profile is superior given the low capex and working capital requirement.

The company plans to add 40 stores over next 24 months. The capital outlay is ~Rs 1.5 Cr/store and inventory build-up of ~Rs 5 Cr/ store. Larger stores have the potential for store OPM of 18-18.5% and ROCE of 25%+ within five years of operations.

On overall basis we expect the company to report 30% CAGR revenue growth over FY22-25E. EBITDA margin to expand by 256 bps over FY22-25E due to improving sales realisation and increasing contribution from exclusive brands negated by increasing contribution from low margin CPO division and higher operating costs on the account of new store additions. PAT to grow by 62% CAGR over FY22-25E.



(Source: Company, HDFC sec)



Key risks

Absence of definite supply agreement with luxury brands: Ethos does not have definitive agreements with brand owners for supply of products or fixed terms of trade with majority of its suppliers. Suppliers may terminate their relationship with Ethos or other suppliers that work on non-exclusive basis may engage with other retailers that compete with the company.

High working capital requirements: The working capital intensity of the Ethos is high at ~35% of sales given the high levels of inventory (141 days in FY22). Given the nature of luxury industry and increasing store network and brand partners, inventory levels are expected to remain elevated.

Decline in overall demand for watches: While the management remains confident of a steady growth in the demand for watches in India over the next 10-15 years, there is a decline of watch as a time keeping instrument. But at the same time, watch is becoming an important fashion accessory. So the risk of such a decline in the functional value of a watch is mitigated by positioning Ethos as a provider of watch as a fashion accessory. Any decline in spending power due to slowdown could, however, impact demand for luxury watches.

About the company

Ethos Limited's first luxury retail watch store was opened in January 2003 at Chandigarh by their Promoter, KDDL Limited, a company listed on the BSE and the NSE, under the brand name "ETHOS". Subsequently, the retail business of their Promoter was hived off into Ethos under the name and style of Kamla Retail Ltd in 2008 and Ethos was renamed as Ethos Limited in 2012, in order to consolidate the business of luxury watch retail under one umbrella for better management and focussed approach. Their Promoter's experience in the watch industry has assisted them in establishing strong relationships with the global watch brands and further strengthening their business.

Currently, Ethos has an extensive network of 50 retail stores spread across 17 cities of New Delhi, Mumbai, Bengaluru, Hyderabad, Chennai, Kolkata, Chandigarh, Ahmedabad, Jaipur, Lucknow, Gurgaon, Guwahati, Ludhiana, Nagpur, Noida, Pune and Thane in India. Their 50 stores are categorised into 14 Ethos Summit Stores and 1 airport store, 14 multi-brand outlets and 10 Ethos Boutiques both housing bridge to luxury and premium brands, 10 luxury segment mono-brand boutiques offering a single luxury watch brand, and 1 CPO luxury watch lounge for pre-owned watches. Their distinct retail formats address various market segments like luxury and high luxury, exclusive boutiques and airport boutique.

About KDDL: KDDL Limited (KDDL, erstwhile known as Kamla Dials and Devices Ltd) is an India-based listed company engaged in manufacturing of watch components and emerging as a strong engineering company for manufacture of high-quality precision stamped



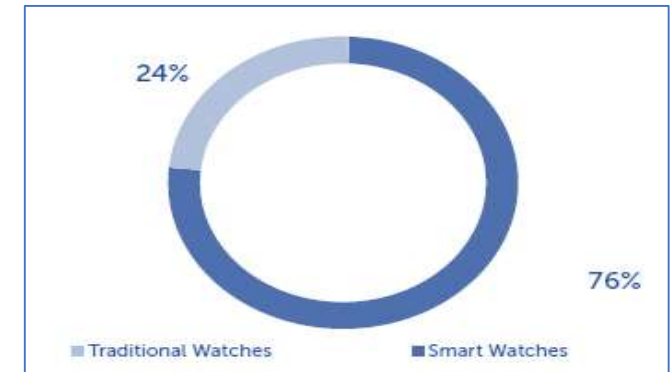
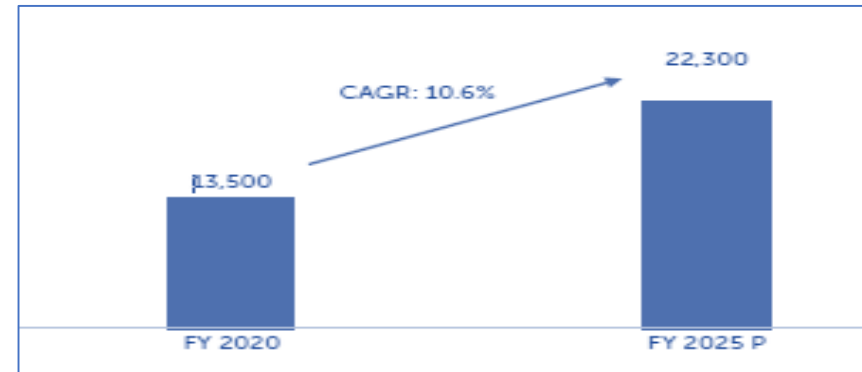
components and progressive tools for various non-horological applications. KDDL's revenues are primarily from manufacture of watch components, progressive tools, precision engineering components and sub-assemblies.

Annexure

Industry Overview:

Indian Watch Market - The Indian watch market was estimated at Rs. 13,500 Cr in FY20 and is projected to increase at a CAGR of 10.6% to reach Rs. 22,300 Cr by FY25. The Indian watch market is further divided based on Price and Product type. They are divided into "Traditional watches" (which covers both Analogue and Digital Watches) and "Smart Watches" based on the type of product.

Indian watch industry size and composition

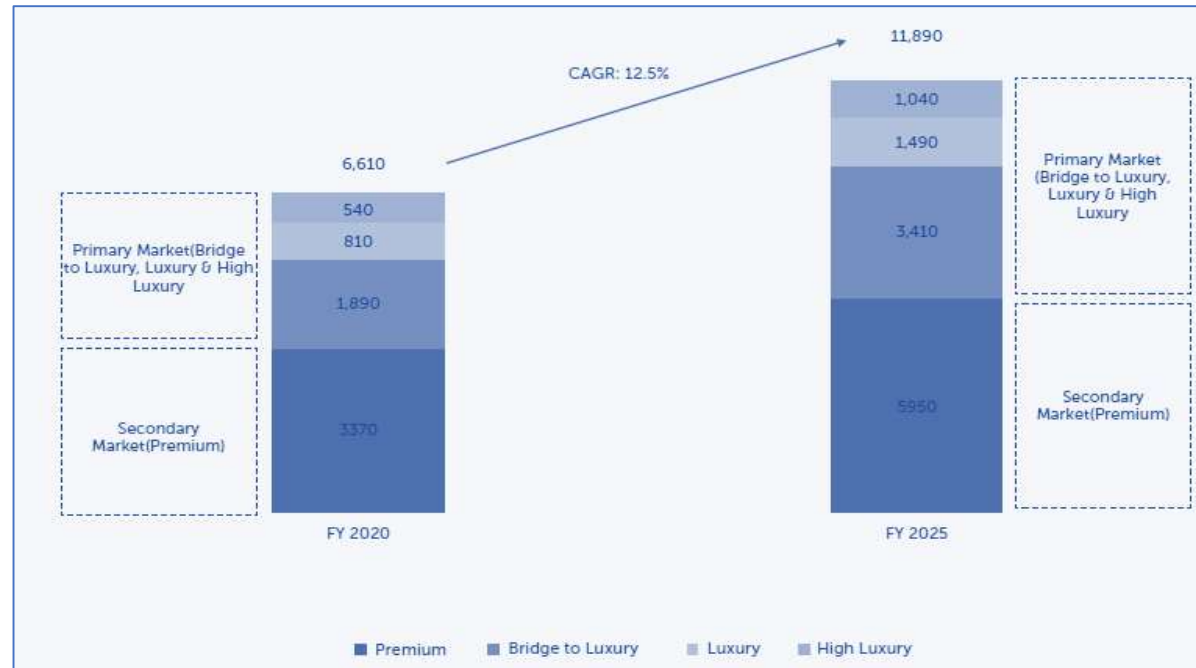


(Source: Company, HDFC sec)

While Smart Watches have grown faster than traditional watches over the last decade, they are almost exclusively restricted to the price point below Rs 100,000. Traditional watches have been the segment's main draw for customers of all income levels, genders, and ages. Brands have maintained sector relevance by new product launches that appeal to particular customer groups. Traditional timepieces dominate the premium and luxury market. Consumers purchase these watches for their quality, legacy, and brand value.

Price Segmentation of the Indian Watch market

In the Rs. 13,500 Cr Indian watch market the mass and mid-segment watches i.e. the price segment below Rs. 5,000, account for 30% of the market, the Fashion sector (Rs. 5,000 – Rs. 25,000) accounts for 21%. The remaining 49% of the market comprises of the following segments : the Premium (Rs. 25,000 to 1 Lakh), Bridge to Luxury (Rs. 1 to 2.5 Lakhs), and Luxury (Rs. 2.5 to 10 Lakhs), High Luxury (Rs. 10 Lakhs and above).



(Source: Company, HDFC sec)

While the Mass & Mid segments account for a significant value and volume part of the market, their growth rate is sluggish at 5-7%. On the other hand, Fashion and Premium segments are rising at a CAGR of 12%. Luxury categories are increasing higher than other sectors. With a CAGR of 14%, the high luxury market is expanding more quickly than other market segments.

The size of the Luxury watch segment as percentage of the total watch market was about 24% in FY20 in India; this is relatively small when compared to worldwide averages. However, as this segment is the fastest growing in India, it is estimated to rise from 24% to 27% by FY25. Thus among all watch segments, the luxury market segment provides the best growth opportunities in India.



Segment-wise classification of watches

Category	Price Range (INR)	Key Brands
High Luxury	>10,00,000	ROLEX, GP GIRARD-PERREGAUX, J. Meyer & Co, PATEK PHILIPPE, BOVET 1822
Luxury	2,50,000-10,00,000	OMEGA, FNITH, PANERAI, BREITLING, CARL F. BUCHERER
Bridge to Luxury	1,00,000 -2,50,000	TITONI, LONGINES, ORIS, RADO, TAG
Premium	25,000 -1,00,000	TISSOT, SEIKO, MOVADO, RAYMOND WEIL, JUNGHANS
Fashion	5,000 -25,000	STUSSY RAGA, Fossil, G-SHOCK
Mass	<5,000	maxima, SONATA, CASIO

(Source: Company, HDFC sec)

Increasing HNWI and UHNWIs - Forecasts for wealth growth indicate that India’s wealth threshold will nearly treble over the next five years. In fast-growing economies like China and India, where the number of HNIs has increased, people’s wealth has also increased. The Knight Frank 2021 research predicts that the number of HNIs will increase by 75% during the next five years. India has 3.50 lakhs HNIs as of 2020; by 2025, that number will rise to 6.11 lakhs. Similar to this, it is anticipated that the number of UHNIs will increase from 6,884 in 2020 to 11,198 in 2025, a 63% increase. As HNI and UHNI families are the most significant buyers of luxury products in general, including premium and luxury watches, growth in HNI and UHNI numbers will significantly fuel the expansion of luxury businesses.

Value Chain for Premium & Luxury watches

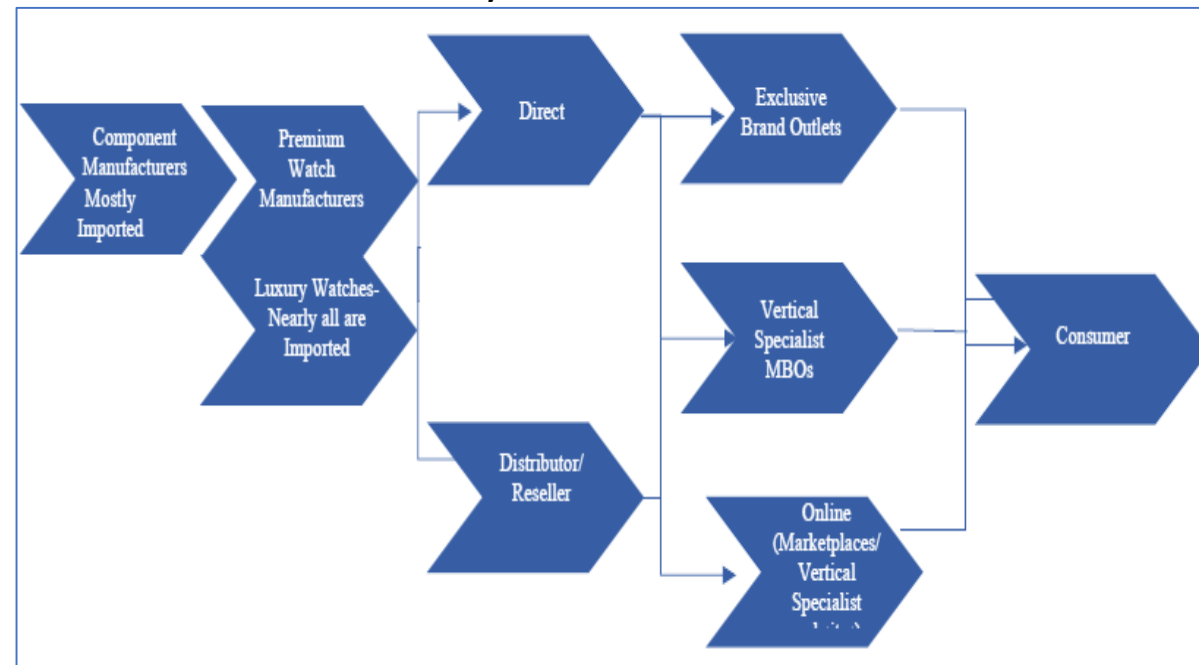
The value chain of the luxury watches market comprises various stages and services adding a specific value at their point of operation, which contributes to the competitive value of the service provided. Luxury watch manufacturers either source parts directly from component manufacturers or manufacture it locally. The manufacturers can then use their direct channel to send their products directly



to EBOs, MBOs & sell through online channels. Brands such as Rolex sell via official resellers and supply Luxury watches to EBOs, MBOs and Vertical Specialists. The customer, depending on his purchase pattern would choose the channel to buy Luxury watches. In India, majority luxury watches are imported, hence the finished product directly reaches the value chain through its manufacturers retailing the product through a network of retailers and distributors.

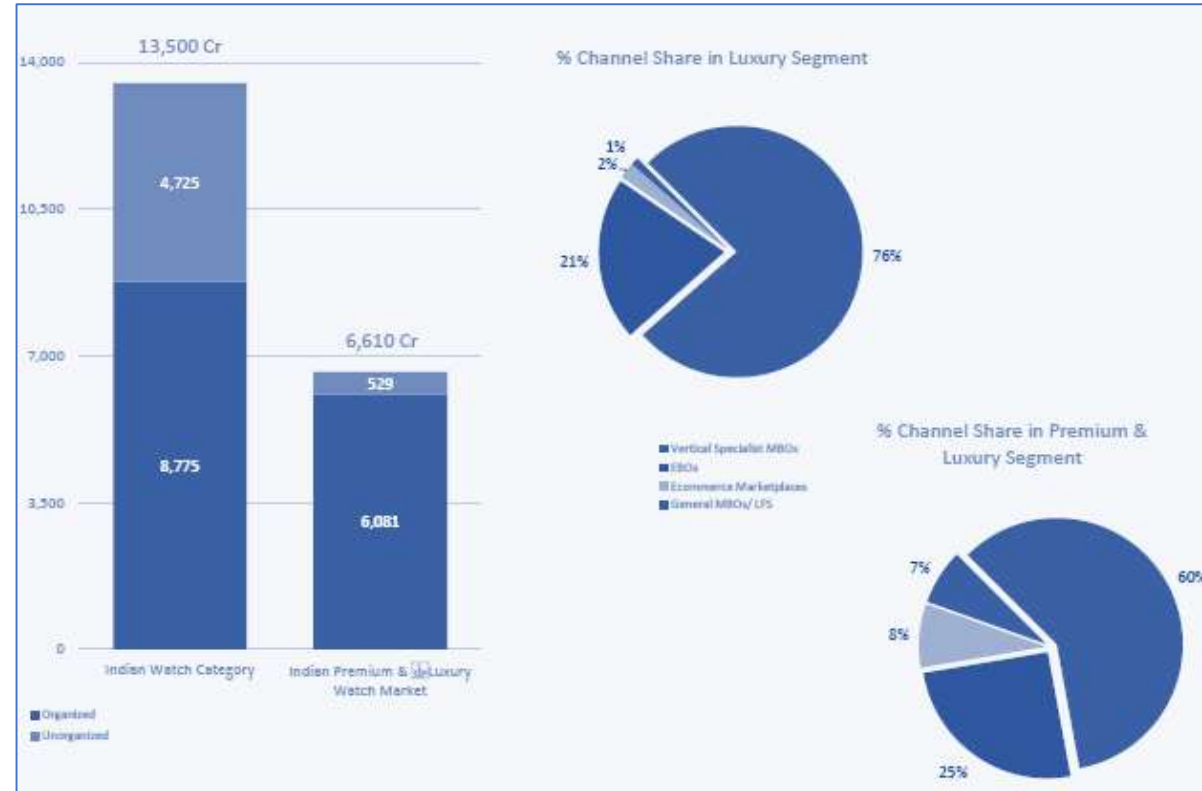
The Retailer margins on Premium watches ranges from 20 - 25%, while retailer margins on Bridge to Luxury segment ranges from 25 - 28%, and Luxury & above segments have a retailer margin of 20 - 35%.

Value Chain for Premium and Luxury watches in India





Premium & Luxury Watch market is highly organised on the back of growth of Vertical Specialists



(Source: Company, HDFC sec)

Market Shares of Key Vertical Specialist Premium & Luxury Watch MBOs

Vertical Specialist Premium & Luxury MBOs	Share in Luxury Watch Market	Share in Premium, & Luxury Watch Market
Ethos Limited	20%	13%
Kapoor Watch	10%	7%
Johnson Watch	7%	4%
Zimson	6%	4%
Kamal Watch	5%	3%
Khimani Watch	2%	2%
Helvetica Boutique	2%	1%

(Source: Company, HDFC sec)



Within Vertical Specialist MBO route to market in India, Luxury and Premium watch retail sales is dominated by national player Ethos and regional / local MBO players like Kapoor Watch and Johnson Watch Company. Ethos has a 13% share of the total retail sales in premium and luxury segment, and a share of 20% when seen in exclusively Luxury segment. Within the latter segment where Ethos occupies a 20% share, regional and local players like Kapoor Watch occupy a 10% share, and Johnson Watch Company occupies a 7% share, -- Zimson occupies a 6% share. This makes Ethos the largest Retailer in Premium & Luxury watch retail in the country.

City-type and Region mapping for key Luxury Brand EBOs

Vertical Specialist	Region-wise					City-wise					Total Stores
	North	South	East	West	Central	Metro	Mini-Metro	Tier 1	Tier 2	Tier 3	
Ethos	41%	29%	4%	27%	0%	41%	39%	18%	2%	0%	50
Zimson	0%	100%	0%	0%	0%	0%	73%	23%	3%	0%	30
Johnson Watch	100%	0%	0%	0%	0%	100%	0%	0%	0%	0%	10
Kapoor Watch	100%	0%	0%	0%	0%	100%	0%	0%	0%	0%	11
Helios	35%	20%	11%	21%	4%	26%	31%	20%	22%	1%	112
Art of Time	0%	0%	0%	100%	0%	100%	0%	0%	0%	0%	2

(Source: Company, HDFC sec)



Financials

Income Statement

Particulars (Rs in Cr.)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Revenues	458	387	577	777	997	1266
Growth (%)	3.2	-15.6	49.3	34.6	28.3	26.9
Operating Expenses	406	347	510	664	858	1087
EBITDA	52	40	67	113	139	179
Growth (%)	57.5	-23.0	68.4	69.6	22.2	29.2
EBITDA Margin (%)	11.3	10.3	11.6	14.6	13.9	14.2
Depreciation	33	33	32	37	45	53
Other Income	3	16	13	14	15	17
EBIT	22	24	48	90	109	143
Interest expenses	20	17	17	15	7	9
PBT	2	7	32	76	102	134
Tax	3	2	8	19	26	34
PAT	-1	5	23	57	76	100
Share of Asso./Minority Int.	0	0	0	0	0	0
Adj. PAT	-1	5	23	57	76	100
Growth (%)			403.4	142.0	35.1	30.7
EPS	-0.5	2.5	12.2	24.2	32.7	42.8

Balance Sheet

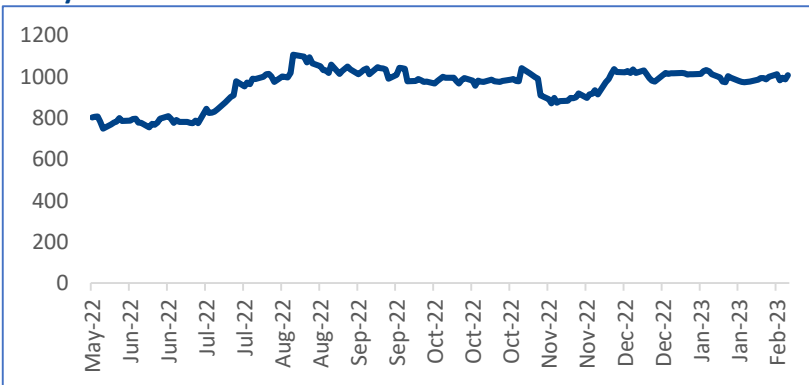
Particulars (Rs in Cr.) - As at March	FY20	FY21	FY22	FY23E	FY24E	FY25E
SOURCE OF FUNDS						
Share Capital	18	18	19	23	23	23
Reserves	132	139	213	605	681	781
Shareholders' Funds	150	157	232	628	704	804
Minority Interest	0	0	0	0	0	0
Total Debt	76	52	59	9	0	0
Net Deferred Taxes	0	0	0	0	0	0
Total Sources of Funds	228	209	291	638	705	805
APPLICATION OF FUNDS						
Net Block & Goodwill	128	113	130	148	132	107
CWIP	1	4	0	0	0	0
Investments	1	1	2	2	2	2
Other Non-Curr. Assets	20	20	36	77	51	65
Total Non Current Assets	149	137	168	227	185	173
Inventories	219	198	250	341	437	555
Debtors	9	12	5	9	11	14
Cash & Equivalents	11	21	40	297	368	429
Other Current Assets	37	26	41	56	72	91
Total Current Assets	276	257	336	702	888	1088
Creditors	72	72	84	128	164	208
Other Current Liab & Provisions	124	113	130	163	204	249
Total Current Liabilities	197	185	213	291	368	457
Net Current Assets	79	72	123	411	520	631
Total Application of Funds	228	209	291	638	705	805



Cash Flow Statement

Particulars (Rs in Cr.)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	2	7	32	76	102	134
Non-operating & EO items	2	-15	-7	-27	52	19
Interest Expenses	18	16	14	15	7	9
Depreciation	33	33	32	37	45	53
Working Capital Change	-12	26	-43	-43	-64	-83
Tax Paid	-6	-3	-10	-19	-26	-34
OPERATING CASH FLOW (a)	37	63	17	38	116	98
Capex	-13	-9	-24	-16	-29	-28
Free Cash Flow	24	54	-7	22	87	70
Investments	-1	0	-1	0	0	0
Non-operating income	0	-1	1	-40	0	0
INVESTING CASH FLOW (b)	-15	-10	-24	-55	-29	-28
Debt Issuance / (Repaid)	-1	-24	7	-50	-9	0
Interest Expenses	-19	-17	-16	-15	-7	-9
FCFE	2	13	-16	-83	71	60
Share Capital Issuance	21	0	51	375	0	0
Dividend	0	0	0	0	0	0
FINANCING CASH FLOW (c)	1	-40	42	310	-16	-9
NET CASH FLOW (a+b+c)	23	13	35	292	71	60

One-year Share Price Data



Key Ratios

Particulars	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profitability Ratios (%)						
EBITDA Margin	11.3	10.3	11.6	14.6	13.9	14.2
EBIT Margin	4.8	6.1	8.3	11.6	10.9	11.3
APAT Margin		1.2	4.0	7.3	7.7	7.9
RoE		3.0	12.0	13.2	11.5	13.2
RoCE	10.4	10.9	19.3	19.5	16.2	18.9
Solvency Ratio (x)						
Net Debt/EBITDA	1.3	0.8	0.3	-2.5	-2.7	-2.4
Net D/E	0.4	0.2	0.1	-0.5	-0.5	-0.5
Per Share Data (Rs)						
EPS	-0.5	2.5	12.2	24.2	32.7	42.8
CEPS	17.5	20.4	28.8	40.1	52.0	65.7
BV	82.3	86.2	121.4	269.0	301.8	344.6
Dividend	0.0	0.0	0.0	0.0	0.0	0.0
Turnover Ratios (days)						
Debtor days	7	10	5	3	4	4
Inventory days	169	197	142	139	142	143
Creditors days	56	68	49	50	53	54
Valuation (x)						
P/E		396.2	82.5	41.7	30.8	23.6
P/BV	12.3	11.7	8.3	3.8	3.3	2.9
EV/EBITDA	46.9	60.1	35.5	18.2	14.3	10.8
EV / Revenues	5.3	6.2	4.1	2.7	2.0	1.5
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company, HDFC sec



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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