



LONG TERM SUBSCRIBE

IPO Report

17th May' 22

Snapshot

Ethos Ltd. is the leading vertical specialist of luxury watches & accessories in India. Ethos is a subsidiary of KDDL (Dials and watch hands making company for global brands) and has omni channel presence. Ethos presently has 50 stores. Ethos represents 60+ premium & luxury watch brands in India with over 5,000+ products. Ethos has partnered with prominent brands like Rolex, Breitling, Seiko, Omega, Tag Heuer, Frederique Constant, Oris, Victorinox, Baume & Mercier, Raymond Weil, etc.

VALUATION

Company is bringing the issue at price band of Rs 836-878 per share at p/e multiple of 95x on post issue 9Months annualized FY22 eps basis.

Company being leading luxury watch Omnichannel retail player of India has access to a large base of luxury Customers. Company enjoys leadership position in an attractive luxury watch market with early mover advantage in certified pre-owned business. Also Ethos being Founder-led company is supported by a professional management team. With strong growth prospects, we believe company to be candidate for long term investment purpose. Hence , we recommend “Long Term Subscribe” on issue.

Price Band (Rs./Share)	836-878
Opening date of the issue	18th May 2022
Closing Date of the issue	20th May 2022
No of shares pre issue	1,90,78,163 Eq Shares
Offer For Sale	1108037 Eq Shares
Fresh Issue	Rs 375 Cr
Face Value (Rs/ share)	10
Bid Lot	17

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 2689552 Eq Shares)
Non-Institutional	15% of the offer (Approx 806867 Eq Shares)
Retail	35 % of the offer (Approx 1882688 Eq Shares)
Lead managers	Emkay Global Financial, Incred Capital
Registrar to the issue	KFin Technologies Ltd.

WHAT WE LIKE

Leading luxury watch Omnichannel retail player of India

Ethos Ltd is the market leader in Luxury watch segment in India, and it also leads the Luxury Omnichannel market in India, with wide omnichannel presence and focus. In FY 2020, 36% of Ethos’s revenue came from digitally enabled sales. Company’s average selling prices per watch in its retail business have increased on a YoY basis. In Fiscals 2019, 2020, 2021 and the nine months period ended December 31, 2021, the average selling price of company’s watches moved up from ₹ 73,261 in FY 2019 to ₹ 84,240 in FY 2020, to ₹ 1,09,864 in FY 2021 and ₹ 1,42,795 for the nine months period ended December 31, 2021.

Access to large luxury customer base

Company have built its customer base over the years and continue to aim to attract new customers to its platform by providing an engaging shopping experience. As of March 31, 2022 company have access to a HNI customer base of over 2,83,300. Access to company’s digital platform increased over the calendar years i.e. 15.47 million number of sessions in 2019 to 21.46 million number of sessions in December 31, 2021. Company’s results of operations are significantly affected by consumer demand for its products. Each of company’s product lines are discretionary products, which are highly dependent on trends in consumer spending and, consequently, are sensitive to factors that influence consumer spending. Demand for its products is directly proportional to the number of company’s HNI customers.

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. Company’s flagship stores are high-street stores allowing lower mall dependency for company, which proved to be a massive structural advantage, especially during the pandemic year, when all the shopping malls were directed to be closed down.



COMPANY BACKGROUND

Ethos Ltd operate an Omnichannel retail platform across India and sell its products through its (i) stores categorised as Ethos Summit Stores, multibrand stores, Ethos Boutiques, Airport Store, CPO luxury watch lounge and mono-brand boutiques, and (ii) via online channel (including Online Leads). The following table sets forth the sales to its customers, and the percentage of total sales to its customers contribution from each channel, for Fiscals 2019, 2020, 2021 and the nine months period ended December 31, 2021:

Sales Channel	Fiscal 2019		Fiscal 2020		Fiscal 2021		Nine months period ended December 31, 2021	
	Sales	% Sales	Sales	% Sales	Sales	% Sales	Sales	% Sales
Stores	32,372.56	72.99%	32,322.37	70.60%	24,105.38	62.36%	27,924.56	66.71%
Online	11980.34	27.01%	13462.54	29.40%	14551.69	37.64%	13934.75	33.29%
Total	44,352.90	100.00%	45,784.91	100.00%	38,657.07	100.00%	41,859.31	100.00%

On company's website visitors can research about the latest watch launches, reviews and choose from over 7,000 premium, bridge to luxury, luxury and high luxury watches across 50 brands and as of the calendar year ending December 31, 2021, company's website had 21,844,216 number of visitor sessions. As company's offline and online channels are integrated, company's customers can place orders for its products either offline or online and have the flexibility of buying products at one store and returning at another or browsing its product catalogues and placing orders online with doorstep delivery. In addition to premium and luxury watch retail, company also undertake retail of certified pre-owned luxury watches under 'Certified Pre-Owned' ("CPO") luxury watch lounge located at National Capital Territory of New Delhi.

Company have an extensive network of 50 (fifty) retail stores spread across 17 cities of National Capital Territory of Delhi Mumbai, Maharashtra; Bengaluru, Karnataka; Hyderabad, Telangana; Chennai, Tamil Nadu; Kolkata, West Bengal; union territory of Chandigarh; Ahmedabad, Gujarat; Jaipur, Rajasthan; Lucknow, Uttar Pradesh; Gurgaon, Haryana; Guwahati, Assam; Ludhiana, Punjab; Nagpur, Maharashtra; Noida, Uttar Pradesh; Pune, Maharashtra and Thane, Maharashtra in India. Company's 50 stores are categorised into 14 Ethos Summit Stores and one Airport store (that houses bridge to luxury, luxury and high luxury brands), 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.

Company's digital platform had 3.2 million sessions in December 31, 2021. As of March 31, 2022, company had about 2.5 million website users, over 2,83,300 active email subscriptions, 1,68,000 Instagram followers, 1,57,000 Facebook followers, and 12,300 YouTube subscriptions

Source:RHP



INVESTMENT RATIONALE

<p><i>Strong and long-standing relationships with luxury watch brands</i></p>	<p>Through company’s strong and long-standing relationships with the world’s leading luxury watch makers, Company is able to offer its customers the respected luxury watches brands in the world, such as Omega, IWC Schaffhausen, Jaeger LeCoultre, Balmain, Panerai, Bvlgari, H. Moser & Cie, Rado, Longines, Baume & Mercier, Oris SA, Corum, Carl F. Bucherer, Tissot, Raymond Weil and Louis Moinet. Some of these business partnerships with brands like Omega, Rado, Tissot, Longines, Baume Mercier, IWC Schaffhausen, Jaeger LeCoultre, Carl F. Bucherer and Balmain have been ongoing for more than a decade. The strength of Company’s long-standing relationships with leading luxury watch brands in India has assisted, and will continue to assist, company in further growing its presence in India. The strong and longstanding network of relationships with owners of luxury watch brands enhances company’s competitive position.</p>
<p><i>Leadership position in an attractive luxury watch market</i></p>	<p>Watch market in India was valued at ₹ 13,500 crores in Fiscal 2020 and is expected to grow at a CAGR of 10.6% to reach ₹ 22,300 crores by Fiscal 2025. The watch industry in India is dominated by the organised sector having a 65% share of the overall market, and unorganised market contributing to 35% of the overall market. While the organized watch market in Fiscal 2020 was estimated at ₹ 8,700 crores, the unorganised market was approximately ₹ 4,780 crores</p>
<p><i>Early mover advantage in certified pre-owned business</i></p>	<p>In addition to company’s premium and luxury watch retail, company also undertake retail of certified pre-owned luxury watches under ‘Certified Pre-Owned’ (“CPO”) luxury watch lounge located at National Capital Territory of New Delhi. Company started its pre-owned luxury watch retail business in Fiscal 2019. CPO is a destination for selling and buying preowned luxury watches under technical expert supervision providing a 360- degree physical inspection and verification of watches and certified with a two year warranty. The overall luxury pre-owned market in India was valued at approximately INR 40 crores -50 crores during Financial year 2020, which was largely dominated by the unorganised sector contributing almost 80% of the market. The organised sector offering Certification on Pre-owned luxury watches i.e the CPO Luxury Watch market is at a nascent stage in India and was valued at approximately INR 10 crore -15 crores lakhs in FY 2020. In comparison, the overall premium & luxury watch market in India was valued at INR 6,610 Cr in FY 2020, making the Indian CPO market, which is a complimentary market, over and above the Overall Indian market for Premium & Luxury watches, to be around 0.2% of the Overall Premium & Luxury watch market. The CPO share in India is currently miniscule, and dominated by CPO Business of Ethos. By capitalizing on its existing business experience in luxury watches, CPO business arm of company has paved way for the growth of CPO luxury watch market in India</p>



OBJECTS OF ISSUE

The present Offer comprises of the Fresh Issue, aggregating up to ₹ 37,500 lakhs and an Offer for Sale of up to 11,08,037 Equity Shares, by the Selling Shareholders. Company propose to utilise the Net Proceeds from fresh issue towards funding the following objects:

1. Repayment or pre-payment, in full or in part, of all or certain borrowings availed by company;
2. Funding working capital requirements of company; and
3. Financing the capital expenditure for (i) establishing new stores and renovation of certain existing stores and (ii) upgradation of enterprise resource planning software

RISKS

The growth of online retailers may create pricing pressures, increase competition, and adversely affect company's business, results of operations and financial condition.

Source:RHP

INDUSTRY OVERVIEW

Factors leading to increase/ decrease in the sale of luxury watches in the Organized market The factors that have led to the growth of the sale of luxury watches in the organized market are:

Growth Drivers

1. Rise of Organised players in Luxury watch business in India Organised players have seen a rise in the premium and luxury watch market with expansion in both online and offline organized channels. Multiple regional chain stores such as Mumbai, Maharashtra's Just-In-Time, Hyderabad, Telangana's Kamal Watch Company, and Coimbatore, Tamil Nadu's Zimson Watch Company, have been drivers for Luxury watch MBO's in specific regions of India. Pan-India Organised retailers such as Ethos are expanding and driving the Vertical Specialist MBO Market for luxury watches in India; Helios has pan India presence with watches mostly in fashion & premium range, with limited presence in bridge to luxury range; and Just Watches is present across the country for mostly Fashion segment of watches. Watch brands are also exploring brands partnerships, e.g. international brands such as Moser, Oris, Titoni, Carl F. Bucherer, Raymond Weil, Louis Erard, Corum among other shave exclusive partnerships with Ethos. Also, existing unorganized players are also adopting multichannel approach by selling through online marketplaces and social commerce, hence adding to the Organised market size. The rise of organized players in Luxury watch business would lead to an increase in customer trust and availability & acceptability of Luxury watches in India. Organised players often provide better after sales services such as repairs and refurbishments with additional warranty and guarantee which positively influences the purchasing decisions of customers.

2. Regulatory Headwinds Demonetization: India's two highest-denomination banknotes- INR 500 & INR 1,000, were demonetized in November 2016 leading to majority of country's currency under circulation becoming redundant. There was also resulting confusion & delays caused by limited supply of new bank notes and the country experienced a cash crunch. Restriction on cash, which was the major source of transaction for premium and luxury products in the country resulted in a temporary decrease in discretionary spend and as a result, watch sales, especially premium & luxury segment suffered a setback immediately after demonetization. But this also led to the adoption of plastic/digital money in the premium & luxury watch sector. The adoption of cashless transactions has brought in further transparency into the sector. Demonetization helped organized players to further penetrate the unorganised market for premium & luxury watches by capturing market share from unorganized players whose business was predominantly based on cash. Goods and Services Tax: GST introduction brought in greater transparency in the premium and luxury watch market by enforcing tax compliance. Permanent Account Number: 2016 saw the introduction of mandatory PAN requirement for transactions exceeding INR 2 lakhs. The PAN card requirement makes it compulsory to establish the identity of the buyer which makes it difficult for unorganized retailers to operate, and in turn favors the organised players.

3. Customer Relationship Management: Luxury consumers look for experience and customisation when buying products. The purchase experience and related marketing around it hence becomes an important part of consumer decision making. Premium & Luxury watch brands are using engaging marketing tools with customised offerings and experiences to attract customers, which is something only larger organised players can afford to do, contributing to an increase in organised market. E.g. Players like Ethos, Art of Time organise events for key customers to unveil limited-edition watches along with celebrity presence.

4. Customizing & Designing: Luxury watches are available in different price ranges. However, the price of customized or designer watches is often decided based on skill, the creative approach, and the designer of the watch. Few of the brands are leveraging this trend by offering products in partnership with cinema studios & famous global designers. For example, Kross studios launched The Death Star Watch in collaboration with the official owner of Star Wars with 10 limited edition watches in the luxury segment. Such experiences also attract consumers to branded and organised players in luxury segment.

(Source:RHP)



(Rs in lakhs)

Financials	FY19	FY20	FY21	As at 31 Dec'21
Total Revenue (A)	44352.90	45784.91	38657.07	41859.31
Total Expenditure (B)	38683.68	40626.77	34683.88	37303.66
EBIDTA	5669.22	5158.14	3973.19	4555.65
EBIDTA Margin	12.78	11.27	10.28	10.88
Other Income	156.73	315.65	1657.16	1075.45
Depreciation	2566.21	3278.90	3135.91	2275.09
EBIT	3259.74	2194.89	2494.44	3356.01
Interest	1611.95	1962.59	1698.21	1192.22
PBT	1647.79	232.30	796.23	2163.79
Share of Profit in Associate	0.00	-33.43	13.50	-2.19
PBT	1647.79	198.87	809.73	2161.60
Tax	658.91	331.97	231.20	562.82
PAT	988.88	-133.10	578.53	1598.78
NPM	2.23	-0.29	1.50	3.82
ROE %	7.58	-0.89	3.72	8.07
Eq Cap	1,690.17	1,821.28	1,821.28	1,877.55
Net Worth	13040.43	14986.48	15561.36	19806.08
EPS	5.85	-0.73	3.18	8.52
BV	77.15	82.29	85.44	105.49

(Source:RHP)



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