ICRA

April 12, 2017

Ethos Ltd.

Instrument*	Rated Amount (in crore)	Rating Action
Fund-based Limits	54.65	Assigned [ICRA]BBB (Stable)
Non-fund Based Limits	5.35	Assigned [ICRA]A3+
Total	**60.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]BBB (pronounced as ICRA triple B)[1] to the Rs. 54.65-crore fund-based facility of Ethos Ltd. (Ethos). ICRA has also assigned the short-term rating of [ICRA]A3+ (pronounced as ICRA A three plus) on the Rs. 5.35-crore[2] non-fund based bank facilities of Ethos. For arriving at the ratings, ICRA has combined the business and financial risk profiles of Ethos and its parent company KDDL Limited (KDDL).

Detailed rationale

The assigned ratings favourably factor in Ethos' established market position in the luxury watch retailing business and KDDL's established presence in watch component manufacturing as a leading supplier of watch hands and dials to global watch majors. The rating also draws comfort from the financial and operational support that Ethos receives from KDDL. ICRA notes that Ethos will continue to benefit from the strong support from its parent KDDL.

The ratings, however, are constrained by the demand and profitability pressures on the Ethos and its high working capital requirements, which along with ongoing capex in the KDDL's precision engineering division have resulted in modest return indicators. Going forward, Ethos' ability to improve its operating performance and the group's ability to improve the return indicators will be the key rating sensitivities.

Key rating drivers

Credit strengths

- Large luxury watch retailer with a large store network; extensive knowledge by virtue of promoters' experience
- Benefits derived from strong support from its parent, KDDL, and its own established market position
- Experience of the management in watch components manufacturing and retailing sector

Credit weaknesses

- Impact of recent PAN guidelines on retail business has resulted in recent losses; however, the loss was funded through promoter's funds
- Modest return indicators given pressures on Ethos and ongoing capex in KDDL
- High working capital intensity due to large inventory requirements

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[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

[2] *100 lakh = 1 crore = 10 million*

Description of key rating drivers

The assigned ratings favourably factor in the established market position of Ethos, which manages the largest retail chain of luxury watches in the domestic organised sector. The rating also factors in the exclusive brand partnership along with the good product mix (medium range watches to high-value luxury watches). Over the years, Ethos has built a network of 35 stores across cities such as Ahmadabad, Chandigarh, New Delhi, derabad, Mumbai etc. among many others. In FY2015, Ethos reported an operating income (OI) of Rs 280.23 crore and a net profit after tax (PAT) of Rs 2.36 crore. However, in FY2016 with the implementation of the new PAN guidelines, Ethos reported an OI of Rs 327.15 crore and a net loss of Rs 5.94 crore. Furthermore, ICRA notes that the recent ban on cash transaction of above Rs 0.02 crore may further impact Ethos' growth. Against this backdrop, the company has been taking steps to improve its margins by entering into exclusive brand partnerships and rationalising its non-profitable stores, as was also done in the past. Ethos posted some revival in 9MFY2017 as evident in its better operating margins.

The retail business has high working capital requirements owing to high levels of inventory spread across retail centers, leading to high working capital utilisation over the last one year. Ethos' working capital intensity stood at 33% in FY2016 as compared to 31% in the previous year. However, KDDL has continued to support Ethos' funding position through equity infusions which lends comfort to the rating.

The capital structure of Ethos remained moderate owing to cash losses in FY2016, which has resulted in some erosion of the company's net-worth position, and significant debt levels. Consequently the debt coverage indicators also remained weak. However, on a consolidated level, the coverage indicators remained moderate as characterized by interest coverage of 1.97x, DSCR of 1.16x, total debt/ OPBIDTA of 4x and NCA/ total debt of 13% in FY2016, given KDDL's ability to raise equity and consequently, its limited overall indebtedness.

Going forward, the company's ability to improve its operating performance and return indicators will be key rating sensitivity.

Analytical approach: Consolidated, while arriving at the ratings, ICRA has taken a consolidated view of KKDL Ltd and Ethos Ltd

Links to applicable criteria
http://www.icra.in/Files/Articles/Rating%20Meth%20Mar%202017.pdf

About the company:
Incorporated in 2003, Ethos operates India's largest retail chain of luxury watches, which has 35 stores as on Feb 28, 2017 at various locations in India. The group company KDDL manufactures watch components such as dials and hands and has a presence in Switzerland through its subsidiary, Pylania SA, which also makes dials and hands for Swiss watch companies. As on December 31, 2016, SAIF (a qualified institutional buyer) held 16.26% equity stake in KDDL.

On a consolidated basis, the group reported a net profit of Rs. 4.19 crore on an operating income of Rs. 449.78 crore in FY2016, as compared to a net profit of Rs. 8.8 crore on an operating income of Rs. 411.5 crore in the previous year. In 9MFY2017, the group on a consolidated basis reported revenue of Rs. 352.07 crore as compared to Rs 341.65 crore in 9MFY2016.

Ethos on standalone basis reported a loss of Rs. 5.95 crore on an operating income of Rs. 327.15 crore in FY2016, as compared to a net profit of Rs. 2.36 crore on an operating income of Rs. 280.23 crore in the previous year. In 9MFY2017, the company reported revenue of Rs. 251.70 crore as compared to Rs 251.90 crore in 9MFY2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating		
		Type	Rated amount (Rs. Crores)	Month-year & Rating
				April 2017
1	Cash Credit	Long Term	51.00	[ICRA] BBB (Stable)
2	Term Loans	Long Term	3.65	[ICRA] BBB (Stable)
3	Bank Guarantee/ Letter of Credit/ Buyer's Credit	Short Term	5.35	[ICRA] A3+

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	51.00	[ICRA] BBB (Stable)
Term Loans	2014	-	2020	3.65	[ICRA] BBB (Stable)
Bank Guarantee/ Letter of Credit/ Buyer's Credit	-	-	-	5.35	[ICRA] A3+

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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