

May 24, 2024

Ethos Limited: Rating upgraded to [ICRA]A+(Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fixed Deposits	10.00	10.00	[ICRA]A+(Stable); upgraded from [ICRA]A(Stable)
Proposed Working capital	125.00	125.00	[ICRA]A+(Stable); upgraded from [ICRA]A(Stable)
Total	135.00	135.00	

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade factors in ICRA's expectations that Ethos Limited (Ethos) will continue to witness significant traction in its revenues and profitability metrics and that its financial profile will continue to remain strong. Buoyant demand in the near to medium term coupled with ongoing store network expansion augurs well for the company's business prospects and is expected to strengthen the company's market position. Further, consistent increase in exclusive arrangements with brands and growing scale across segments will continue to support the company's margin profile. The company's credit metrics have improved with benefits accruing from growing scale amid healthy demand from luxury and high luxury end segment and limited external debt in its books in addition to equity raise through a QIP in FY2024. ICRA expects Ethos' credit metrics to remain healthy, led by negligible leverage, strong liquidity position and benefits accruing from its retail network expansion. The rating continues to favourably factor in Ethos' position as the largest organised luxury watch retailer in the country. The ratings are further supported by stable performance of the parent company, KDDL Limited (KDDL), led by its healthy operating and financial performance.

The ratings, however, are constrained by the inherently working-capital intensive nature of company's business. The company needs to maintain adequate inventory across various watch segments to maintain the brands' standards of displaying products to its customers. Inventory requirements are expected to increase further in terms of value as the company is planning to scale up its retail presence. Nevertheless, ICRA notes that the company is expected to fund its incremental inventory requirements primarily through equity funds in the medium term, in line with the specified purpose of QIP funds (raised in Q3 FY2024), thus limiting debt levels. Additionally, the company is exposed to forex fluctuation risk, with a substantial share of its products being imported. Moreover, the company is exposed to competition from domestic players and international markets in the retail segment. Going forward, its ability to expand its store network while maintaining its margins and credit metrics will continue to remain a key monitorable.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's expectation that Ethos will maintain its healthy market position and expand its presence further through more store launches, diversification in product mix and its established relationships with brands while maintaining its strong financial profile.

Key rating drivers and their description

Credit strengths

Established market position in watch retail segment - Ethos is the largest organised luxury watch retailing company in the country and operates currently through 63 stores spread across 24 cities in India. The company is engaged in retailing more than 65 global reputed brands such as Omega, Rolex, Rado, IWC, and Bvlgari, among others. Moreover, the company enjoys an exclusive distribution relationship with 51 brands including Jacob & Co., H. Moser & Cie, Bovet, and Oris, etc.

Expanding network augurs well for company's business prospects - The company witnessed strong revenue growth of ~27% in FY2024 (revenues improved to Rs. 999 crore in FY2024 from Rs. 789.6 crore in FY2023). In addition, the company witnessed significant traction in the high luxury segment, which has been growing for the past couple of years. The company also witnessed a significant Same Store Sales Growth (SSSG) of ~18% in FY2024 supporting operating leverage and in turn the operating profit margins for the company. Further, its increasing portfolio of exclusive brand sales augurs well for further growth and profitability. The company recently expanded its luxury offerings by foraying into luxury luggage, which is profitable despite its first year of operations. Ethos' store network is expected to undergo healthy expansion over the next two years and is expected to support the company's revenue growth. The company is expanding into tier-II and III cities as well, apart from increasing its presence in tier-I cities. Further, the company is trying to expand its luxury offerings by foraying into international branded jewellery business, which is expected to bring incremental growth, going forward. The company is expected to benefit from first mover advantage in the pre-owned segment as it is the only organised player in India with the capability of certified pre-owned segment. Buoyant demand in the near to medium term, coupled with ongoing store network expansion, augur well for the company's business prospects and are expected to strengthen its market position. The company's ability to expand its store network while maintaining its margins and credit metrics will remain critical going forward.

Improvement in financial risk profile; coverage metrics to remain healthy - With continued increase in the top line and sustained healthy profitability, the company's overall financial risk profile has been improving steadily. Supported by healthy revenue growth and economies of scale, the company posted healthy operating margin of 15.2% and net profit margin of 8.3% in FY2024. Further, the company also raised equity of ~Rs. 175 crore through a QIP in FY2024. This resulted in the gearing improving to 0.16 times as on March 31, 2024 from 0.19 times as on March 31, 2023. The coverage indicators remained healthy in the absence of any major external debt reflecting in improvement in interest coverage and TD/OPBIDTA. ICRA expects the company's financial profile to remain healthy supported by healthy revenue growth margins, comfortable debt metrics and strong liquidity position.

Credit challenges

Working capital intensive business - Ethos' business is inherently working-capital intensive as it needs to maintain adequate inventory across various watch segments so as to maintain global standards of displaying products and thus offer a good customer buying experience. Moreover, the company needs to healthy inventory for normal business operations to manage its supply chain. The company's working capital intensity increased to ~38% in FY2024 from ~36% in FY2023. With a growing footprint of 25 planned new store additions in the near term, along with increasing high-value and exclusive brand sales, the overall inventory requirement will remain sizeable. However, the funding for the same will be mostly through the QIP route, internal accruals and plans to raise working capital debt.

Risk of fluctuating demand amid ongoing global scenario - The company's performance is directly dependent on demand fluctuations, which mainly rely on discretionary consumer spending as well as overall market sentiments. Demand in the retail business also remains prone to regulatory headwinds such as changes in Government policies regarding taxation. Further, the company is exposed to competition from domestic players and international markets in the retail business.

High-than-expected capex could pressurise leverage indicators - ICRA notes that the company raised funds in FY2024 to fund its planned store additions (25 in FY2025) in the near term. The leverage indicators of the company are expected to remain comfortable in the near to medium term despite sizable capex plans in the near term as it is expected to be funded entirely through the existing cash balances and internal accruals. However, higher-than-expected capex could pressurise leverage indicators as the company's exposure to external debt would increase.

Moderate exposure to forex risks - The company is a net importer with approximately 40% of its watches being imported. The company receives periodic price revisions from brands and thus remains exposed to foreign currency fluctuation risk to an extent.

Environmental and Social Risks

Environmental - The company is into retailing of watches and the products do not harm the environment or is of any concern to the climate. Further, the company is spending a part of its earning on the corporate social responsibility causes throughout the year. The Company has taken some energy initiatives such as installation of LED lights & power saving equipment across the stores to reduce the electricity consumption and optimum use of air conditioner (AC) at all offices in order to reduce the electricity consumption.

Social - Ethos has moderate dependence on human capital thus maintaining healthy employee relationships and a safe work environment remain essential for disruption-free operations. Retaining human capital, maintaining healthy employee relationships and a safe work environment remain essential for disruption-free operations. The company conducts training sessions for all employees to upgrade their knowledge and skills from time to time. The Company prohibits employment or engagement child force at workplace and expects that its vendors also follow the same.

Liquidity position: Strong

The company's liquidity position is **strong** on account of the sufficient cash generation and available funds to address its capex and working capital requirements. There are modest repayments of Rs. 6.37 crore towards public deposits (as on March 31, 2024). The company's free cash levels improved to ~Rs. 345 crore as on March 31, 2024 as against Rs. 228 crore as on March 31, 2023 due to funds raised through QIP, which will be used towards store additions and working capital requirements in line with the end-use defined in the QIP. Despite sizable capex in the near term, the liquidity position is expected to remain strong.

Rating sensitivities

Positive factors – A significant improvement in the credit profile of the parent will be a trigger for the company's rating upgrade. Further, a sustained improvement in Ethos' scale and earnings, while sustaining its liquidity position, will be key triggers for a rating upgrade.

Negative factors – Pressure on the ratings could arise if there is a decline in scale of operations and deterioration of profit margins on a sustained basis. A significant deterioration in the company's credit metrics or liquidity position owing to any large debt-funded acquisition/investment could also trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Yes. KDDL Limited holds ~53.8% (~47.0% directly and ~6.8% indirectly through its subsidiary Mahen Distribution Limited) in Ethos Limited (as on March 31, 2024).
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Ethos. The list of companies consolidated are shared in Annexure-II

About the company

Ethos Limited was incorporated in 2003 and is a material subsidiary KDDL Limited. Ethos is engaged in retailing luxury watches. It retails ~65 premium and luxury watch brands such as Omega, Jaeger LeCoultre, Panerai, Bvlgari, H. Moser & Cie, Rado, Longines, and Tissot. The company currently runs 63 retail stores across 24 cities in India, including cities such as New Delhi, Mumbai, Bengaluru, Hyderabad, Chennai and Kolkata. Ethos was listed in Q1FY2023.

Key financial indicators (audited)

Ethos Consolidated	FY2023	FY2024
Operating income	789.6	999.0
PAT	60.3	82.6
OPBDIT/OI	15.7%	15.2%
PAT/OI	7.6%	8.3%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	1.0	1.0
Interest coverage (times)	6.2	9.5

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)			Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024			Date & rating in FY2023		Date & rating in FY2022
					May 24, 2024	Sep 18, 2023	Aug 10, 2023	Oct 25, 2022	Jun 09, 2022	Dec 08, 2021
1 Fund-based/Cash Credit	Long term	0.00	-	-	-	-	-	[ICRA]A-(Stable); Withdrawn	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)
2 Fund-based/Term loan	Long term	0.00	-	-	-	-	-	[ICRA]A-(Stable); Withdrawn	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)
3 Non fund based	Short term	0.00	-	-	-	-	-	[ICRA]A2+; Withdrawn	[ICRA]A2	[ICRA]A2
4 Unallocated	Long term/Short term	0.00	-	-	-	-	-	[ICRA]A-(Stable)/ [ICRA]A2+; Withdrawn	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Positive)/ [ICRA]A2
5 Fixed deposits	Long term	10.00	-	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A-(Stable)	[ICRA]BBB+ (Positive)	MA-(Positive)	
6 Proposed Working Capital	Long term	125.00	-	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fixed Deposits	Very Simple

Fund-based/Proposed Working Capitals

Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fixed deposits	NA	NA	NA	10.00	[ICRA]A+(Stable)
NA	Proposed Working Capital	NA	NA	NA	125.00	[ICRA]A+(Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Ethos Limited	-	Full consolidation
Cognition Digital LLP	99.99%	Full consolidation
RF Brands Private Limited##	100.00%	Full consolidation
Pasadena Retail Private Limited	50.00%	Full consolidation
Favre Leuba GmbH#	-	Equity Method
Silvercity Brands AG*	-	Equity Method

Source: Company, #Favre Leuba GmbH is a wholly-owned subsidiary of Silvercity Brands AG; ## RF Brands Private Limited was incorporated as a wholly-owned subsidiary of the company

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