



Market data	
EPIC/TKR	KOOV
Price (p)	18
12m High (p)	57
12m Low (p)	6
Shares (m)	175
Mkt Cap (£m)	31
EV (£m)	30
Free Float*	31%
Market	AIM

*As defined by AIM Rule 26

Description

Koovs is an online retailer of fashion across India. It has an experienced management team, growing brand awareness and the highest Net Promoter Score (NPS) in its vertical.

Company information

CEO Mary Turner
 CFO Rob Pursell
 Chairman Waheed Alli

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www.koovs.com

Key shareholders	
Waheed Alli (Dir.)	19%
Anant Nahata (Dir.)	23%
Michinoko	11%
Ruffer	11%
Hindustan Times Media	5%
Times of India	4%

Diary	
Before end-Sep'18	Prelims

Analyst

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Koovs

The Future is here

Shortly after its deal with Hindustan Times, Koovs has announced an even more important tie-up with a major Indian partner: Future Lifestyle Fashions Ltd (FLFL), part of The Future Group, will take a 29.9% strategic stake in Koovs, providing not only financial firepower but all the major synergistic benefits possible from one of India's largest fashion retailers. Simultaneously, Koovs has announced an additional £10m equity raise at 15p per share. With the capital and the partners, Koovs now has the substantial platform on which to build India's leading fashion e-tailer and has financially de-risked the whole venture.

- ▶ **The deal:** Koovs will issue 57.9m shares to FLFL at 10p per share, raising £5.8m. It will also look to raise a further £10m from selected investors at 15p per share. The capital raised fulfils the conditions of the HT Media deal. If the full £10m is raised, FLFL will subscribe for further equity, taking its stake up to 29.9%.
- ▶ **The benefits:** FLFL is a huge, nationwide bricks-and-mortar fashion retailer. It is also a vertically integrated business manufacturing its own brands, as well as selling well-known international labels. With Koovs leveraging FLFL's scale and distribution, this should improve its revenue and margins much faster.
- ▶ **Valuation:** Once the deal completes, the equity case moves from being an option to a soundly-based proposition. We previously estimated that the current EV of a future successful Koovs could be ca.£357m, including the funds to be raised. This deal completely transforms Koovs' prospects, in our opinion.
- ▶ **Risks:** Once refinanced, we see the two key risks being slower uptake of e-commerce in India than we forecast and damaging discounting by Koovs' indirect competitors. Koovs also needs to manage the relationship with FLFL successfully to optimise its benefits.
- ▶ **Investment summary:** Once the deal is completed and the money raised, Koovs becomes an exciting way to play the last big world retail market to move online. The prize, if it gets it right, is a billion-pound company and more. It is likely to be a bumpy, exciting ride, but investors have the reassurance of a highly experienced management team in charge, and the backing of two major Indian corporations straddling both retail and media.

Financial summary and valuation						
Year-end Mar (£m)	2017	2018E	2019E	2020E	2021E	2022E
Visits (m)	79	65	116	166	246	312
Conversion	1.6%	1.4%	1.4%	2.3%	2.8%	3.5%
No. of orders (m)	1.25	0.89	1.62	3.74	6.75	10.93
AOV (£)	14.75	16.37	16.74	19.00	20.58	23.29
GOV	18.5	14.5	27.2	71.1	139.0	254.6
Net sales	12.5	9.6	16.9	44.3	86.6	158.6
Weighted margin	43%	46%	49%	53%	57%	61%
Trading profit	0.3	1.2	3.6	12.1	25.8	70.4
Trading margin	2%	11%	21%	27%	30%	44%
EBITDA	-20.0	-14.4	-19.4	-18.9	-7.8	17.2
No. of shares (m)	175	175	398	398	398	398
EV/sales (x)	1.1	1.5	0.8	0.3	0.2	0.1

Source: Hardman & Co Research

Retail partner and strategic investor

Koovs has been looking for additional finance to fund its objective of becoming the leading e-tailer of fashion in India. Last month, it announced a deal with Hindustan Times Media (HT Media) to provide advertising in exchange for £17m-worth of equity. The deal was conditional on Koovs raising at least £6m of new equity. Today, Koovs announced more than just new capital; it also unveiled a new partner – India's largest integrated fashion retailer, part of The Future Group.

Future Lifestyle Fashions Ltd (FLFL) owns and markets about 60 fashion brands through exclusive brand outlets, department stores and multi-brand outlets, as well as company-operated chains such as Central and Brand Factory. The Future Group collectively operates more than 2,000 stores spread over 22 million square feet of retail space.

Future Group has a digital payment platform, Future Pay, which already has 6.5m users and is growing rapidly. It is focused on new technology and has a 600-strong team analysing the data on its customers from all its stores, creating valuable insight into trends and buying habits: a treasure trove for a business like Koovs.

With FLFL as a strategic investor, Koovs will be able to leverage both its buying power and its distribution network. Up until now, Koovs' margins have been hampered by its lack of scale – the model needed large volume increases to reduce the unit costs. This deal should see those margin improvements achieved much faster.

Linking with FLFL will provide Koovs with many more international brands to market, and will enable it to stock much broader ranges of clothes and footwear. With a wider range, visitors to the Koovs website are more likely to make a purchase and more likely to buy more items per order. FLFL's discount retail outlet, Brand Factory, will be useful for moving unsold stock at better prices than it currently manages.

Having a physical retail presence will help Koovs' marketing, especially outside the Metro cities. It will also be able to offer click-and collect (in an FLFL store), reducing distribution costs and lowering return rates. In addition, it will be much more convenient for customers who are not at home during the day to accept deliveries.

The potential benefits of the tie-up with FLFL are readily apparent but they still need to be made to happen. Koovs' management has experience of dealing with both much larger entities and strategic investors in former jobs, which should prove very useful in extracting all the opportunities this deal throws up.

In our report ([“Poised to clean up – the emerging ASOS of India”, March 2018, available on the Hardman website](#)), we forecast that Koovs would trade at a very small gross profit in FY19, before making its first EBITDA profit in FY22. This deal should make the gross profit larger and the first EBITDA profit sooner.

Investment conclusion

This is the second deal in short order, which looks very smart to us: capital on its own was necessary but, combined with the retail muscle of the Future Group, this radically transforms Koovs' prospects. We believe that Koovs is now very well positioned to exploit the huge opportunity that is the Indian e-commerce fashion market. This will not be an overnight success – Indian e-tailing is still very immature – but there is no denying that the potential is immense, and we believe Koovs is a very interesting way of gaining exposure to this market.

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