



Source: Eikon Thomson Reuters

Market data	
EPIC/TKR	KOOV
Price (p)	19
12m High (p)	57
12m Low (p)	6
Shares (m)	175
Mkt Cap (£m)	33
EV (£m)	31
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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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

Analysts

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KOOVS

Funding for the Future now secure

Following on from Wednesday's announcement of the tie-up with Future Lifestyle Fashions Ltd (FLFL), part of The Future Group, Koovs has announced that its offer of new shares has closed early and has been oversubscribed: 70m new shares at 15p, raising £10.5m gross, plus an additional £1.5m investment from the Chairman. With the capital now committed and the partners in position, Koovs now has a very strong platform on which to build India's leading fashion e-tailer.

- ▶ **The deal:** Koovs issues 57.9m shares to FLFL at 10p per share and a further 80m to selected investors at 15p per share. The capital raised fulfils the conditions of the HT Media deal and it will be issued with 42m new shares. FLFL will subscribe within six months for a further 63.5m shares, bringing its stake up to 29%.
- ▶ **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, its revenue and margins should improve 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:** Now it is refinanced, we see the two key risks being slower uptake of e-commerce in India than we forecast, and damaging discounting by Koovs' direct and indirect competitors. Koovs also needs to manage the relationship with FLFL successfully to optimise its benefits.
- ▶ **Investment summary:** With the money raised and the new partners on board, 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

Some deal details

The deal has several parts, as outlined below.

- ▶ Koovs is issuing 57.9m shares to FLFL at 10p per share, raising £5.8m.
- ▶ It is issuing a further 80m to selected investors at 15p per share, raising £12m, including £1.5m from the Chairman.
- ▶ The capital raised fulfils the conditions of the Hindustan Times Media (HT Media) deal and it will be issued with 42m new shares in exchange for £4.2m media credits in its first of four tranches.
- ▶ Lastly, FLFL will subscribe within six months for further shares, bringing its stake up to 29%.

Shares issued and cash raised

	No. of shares (m)	New total no. of shares (m)	FLFL stake	Cash raised (£m)	Price
Already issued	175.4				
Issued to FLFL	57.9	233.3	25%	5.8	10p per share
Equity raise	80.0	313.3	18%	12.0	15p per share
Issued to HT Media	42.0	355.3	16%	0.0	£4.2m of media credits
Additional FLFL purchase	63.5	418.8	29%	9.5	15p per share
Total	418.8		29%	27.3	

Source: Hardman & Co Research

In total, Koovs will have raised £27m in cash and a further £17m in media credits with HT Media. Further, the deal with FLFL should provide significant savings on purchasing and distribution costs.

The full story behind Koovs and the Indian e-tailing opportunity is contained in our report, [*"Poised to clean up – the emerging ASOS of India"*](#), March 2018, available on the [Hardman website](#).

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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