

Ethos

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Consistent outperformance should drive re-rating; maintain BUY

CMP	Target Price
Rs 1,019 as of (November 7, 2022)	Rs 1,400 (■) 12 months
Rating	Upside
BUY (■)	37.4 %

Ethos' Q2 EBITDA was ~10% ahead of estimates, led by both revenue & EBITDA margin beat. Revenue grew 32% YoY, on the back of 17% SSG and contribution from certified pre-owned (CPO) business. The stronger growth for Ethos was owing to both, pick up in industry growth and market-share gains. Improved India pricing for Swiss watches and growth in HNIs are resulting in industry growth, while Ethos continues to gain market share with exclusive partnerships and superior experience (repeat sales at 46% in H1FY23 vs. 34% in FY20). Store additions were muted in Q2 due to delay in mall opening. However, Ethos now expects to open 40 stores over the next 24 months (vs. 13 stores by FY24, earlier). Higher expectations are led by healthy online leads and improving focus of brands on Tier-1 cities. In addition, Ethos targets low double-digit SSG over the medium term. CPO business is a bit constrained due to availability of watchmakers, but commentary remains healthy as Ethos targets ~Rs0.75bn top-line in FY23 (>100% growth). Encouragingly, LTM inventory days remained lower at ~160 (vs. 175 days historically), but payable days reduced by 20, to negotiate better gross margins. While the Q2 beat warrants an earnings upgrade for FY24/25, we remain conservative on both, the margin and working-capital fronts, to account for Ethos' strong expansion plans. We forecast FY22-25E EBITDA CAGR at 47% for Ethos, on: i) 32% revenue CAGR over the same period, led by 13% SSG in new watch retail, 13% rise in avg. store count and 6% growth contribution from CPO/new segments; ii) avg. annual gain of ~100bps in EBITDA margin. Maintain Buy with a TP of Rs1,400, based on 23x Dec'24E EBITDA.

Results summary: Revenue grew 32% to Rs1.8bn, led by 17% SSG and contribution from new stores/certified pre-owned (CPO) business. EBITDA margins improved ~500bps, led by higher gross margins, which remained elevated at 32.2% (+530bps). Better gross margins were led by lower discounting and higher exclusive mix at ~30% for Q2. Store additions were muted due to delay in mall development. However, Ethos still expects to end FY23 with 8-10 net additions and 40 additions over the next 24 months. Encouragingly, LTM inventory days remained lower at ~160 (vs. 175-180 days historically), but payable days reduced by 20, to negotiate better gross margins from brands.

Earnings-call KTAs: 1) Ethos plans to open 40 new stores across tier-1 cities like Surat, Raipur, Bhubaneswar, Cochin, Ranchi, and Siliguri, and flagship stores in metros like Mumbai, Ahmedabad, Hyderabad and Gurgaon. 2) In Q2, share of exclusive brands was ~30% vs. 26% in Q1. 3) During Q2, Ethos closed 2 stores due to expiry of lease, and plans to reopen these stores in the same geography at a better location in Q3. 4) Ethos' share of repeat sales increased to 46% in H1FY23 vs. 41% in FY22, suggesting superior consumer experience. 5) Share of luxury and high-luxury watch sales remains elevated at ~65% vs. 48% in FY20. 6) Ethos has net cash reserves of Rs2.5bn as of H1FY23-end 7) Ethos expects Messika to start operations in Q4FY23 and Rimowa in Q1FY24.

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	3,866	5,773	7,783	10,398	13,386
EBITDA	397	669	1,133	1,441	1,874
EBITDA Margin (%)	10.3	11.6	14.6	13.9	14.0
APAT	44	234	533	725	987
EPS (Rs)	2.4	12.3	22.9	31.1	42.4
EPS (% chg)	0.0	406.1	86.7	35.9	36.2
ROE (%)	2.9	12.1	12.0	10.4	12.6
P/E (x)	420.7	83.1	44.5	32.8	24.1
EV/EBITDA (x)	49.7	30.9	19.3	15.5	12.1
P/BV (x)	11.9	8.4	3.6	3.2	2.9

Source: Company, Emkay Research

Change in Estimates

EPS Chg FY23E/FY24E (%)	11.5/-1.6
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	22.9	31.1
Consensus	-	-
Mean Consensus TP (12M)	Rs 1,400	

Stock Details

Bloomberg Code	ETHOSLTD IN
Face Value (Rs)	10
Shares outstanding (mn)	23
52 Week H/L	1,147 / 707
M Cap (Rs bn/USD bn)	24 / 0.29
Daily Avg Volume (no. of)	85,551
Daily Avg Turnover (USD mn)	1.1

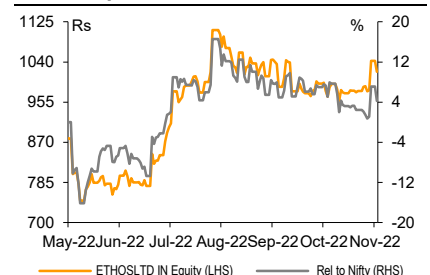
Shareholding Pattern [Quarter]

Promoters	65.2 %
FIIIs	7.6 %
DIIIs	7.5 %
Public and Others	19.7 %

Price Performance

(%)	1M	3M	6M	12M
Absolute	2	5	-	-
Rel. to Nifty (3)	-	-	-	-

Relative price trend



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Exhibit 1: Summary of quarterly results

Rs mn	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	YoY (%)	QoQ (%)	FY23TD	FY22TD	YoY (%)
Revenue	1,344	1,953	1,587	1,736	1,777	32.3	2.4	2,233	3,513	57.3
Expenditure	1,215	1,693	1,376	1,465	1,517	24.8	3.5	2,038	2,982	46.3
Consumption of RM	981	1,386	1,108	1,189	1,204	22.7	1.3	1,617	2,393	48.0
as % of sales	73%	71%	70%	69%	68%			72%	68%	
Employee Cost	108	116	115	124	122	13.1	-1.8	193	246	27.4
as % of sales	8%	6%	7%	7%	7%			9%	7%	
Other Expenditure	126	190	153	152	191	51.1	25.2	228	343	50.8
as % of sales	10%	11%	11%	10%	13%			10%	10%	
EBITDA	129	260	211	270	260	102.5	-3.6	195	531	171.7
Depreciation	79	79	80	81	82	4.1	1.4	149	164	10.0
EBIT	49	182	131	189	178	260.3	-5.7	46	367	690.6
Other Income	25	31	19	22	37	44.5	63.7	77	59	-23.2
Interest cost	39	43	45	42	33	-14.9	-21.1	76	76	-0.3
PBT	35	169	105	169	181	410.9	7.3	47	350	642.6
Tax	9	45	27	43	46	413.7	8.3	12	89	669.0
APAT	26	124	78	126	135	410.0	7.0	36	261	634.1
Share of JV	0	0	0	-2	0	690.9	-73.6	1	-2	
Reported PAT	27	125	78	128	136	410.6	5.9	35	264	654.7
Reported EPS (Rs)	1.5	6.8	4.3	6.6	6.6	351.4	0.5	1.9	13.2	584.9

(%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	(bps)	(bps)	FY23TD	FY22TD	(bps)
Gross margin	27.0	29.0	30.2	31.5	32.2	530	70	27.6	31.9	430
EBITDA margin	9.6	13.3	13.3	15.6	14.7	510	-90	8.7	15.1	640
EBIT margin	3.7	9.3	8.2	10.9	10.0	630	-90	2.1	10.4	840
PBT growth	2.6	8.7	6.6	9.7	10.2	760	50	2.1	10.0	790
PAT growth	2.0	6.4	4.9	7.3	7.6	560	30	1.6	7.4	580
Effective Tax rate	25.3	26.4	25.4	25.2	25.4	10.0	20.0	24.5	25.3	90.0

Source: Company, Emkay Research

Exhibit 2: Actual vs. Estimates (Q2FY23)

(Rs mn)	Actual	Estimates Emkay	Variation	Comments
Revenues	1,777	1,684	5.6%	Continued traction in Luxury watches led a ~6% revenue beat
EBITDA	260	236	10.2%	Higher share of in-house brands and op. leverage led to better margins
EBITDA Margin	14.7%	14.0%	62	
Reported PAT	136	107	26.8%	EBITDA beat and higher other income led to the PAT beat

Source: Company, Emkay Research

Exhibit 3: Changes in estimates

Rs mn	FY23E			FY24E			FY25E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Revenue	7,600	7,783	2.4	10,175	10,398	2.2	12,705	13,386	5.4
EBITDA	1,062	1,133	6.8	1,459	1,441	-1.2	1,868	1,874	0.3
EBITDA margin (%)	14.0	14.6	60 bps	14.3	13.9	-50 bps	14.7	14.0	-70 bps
PAT	478	533	11.5	737	725	-1.6	1,002	987	-1.5
EPS (Rs)	20.5	22.9	11.5	31.6	31.1	-1.6	43.0	42.4	-1.5

Source: Company, Emkay Research

Exhibit 4: Peer Comparison

Companies	Price (Rs)	Mcap (Rs bn)	Reco	Target Price (Rs)	EPS (Rs)			P/E (x)			EV / EBITDA (x)		
					FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
ABFRL	320	304	Buy	380	3.6	6.2	8.8	88.4	51.3	36.3	16.4	13.0	10.9
Jubilant FoodWorks	613	404	Hold	595	8.7	10.9	13.5	70.7	56.4	45.5	29.4	24.7	21.0
Page Industries	49,981	557	Hold	53,100	687.6	814.7	954.0	72.7	61.3	52.4	49.0	41.9	36.1
Titan Company	2,742	2,434	Buy	3,000	39.0	47.9	59.3	70.3	57.2	46.2	47.2	38.7	31.3
Westlife Development	787	123	Buy	720	7.3	11.2	14.0	108.4	70.4	56.3	30.8	24.7	20.8
TCNS Clothing	604	37	Buy	800	14.1	21.7	27.3	42.7	27.8	22.1	13.2	9.8	8.0
Devyani International	186	224	Buy	225	2.4	2.9	3.8	78.3	64.2	48.9	30.6	23.4	18.8
Sapphire Foods	1,441	92	Buy	1,650	22.1	36.4	41.4	65.1	39.6	34.8	19.0	14.0	11.0
Ethos	1,019	24	Buy	1,400	22.9	31.1	42.4	44.5	32.8	24.1	18.3	14.4	11.1

Source: Company, Emkay Research

Exhibit 5: Ethos' earnings growth build-up — We expect ~20% revenue CAGR over FY25-35E, led by 16.2% CAGR in new watch retail with the balance contributed by a faster CAGR in CPO/New Segments; margin gains to help drive 22.8% earnings CAGR over FY25-35E

Ethos – Growth build-up						CAGR (%)			
	FY10	FY20	FY22	FY25E	FY35E	FY10-20	FY20-25E	FY25E-35E	FY35E+
India Swiss watch sales (Rs bn)*	9.6	32.1	35.9	60.3	211.1	12.8	13.4	13.4	8.1
[A] Per-Capita HNWI Swiss Watch Sales (Rs)	75,715	1,22,163	1,16,593	1,55,915	2,30,792	4.9	5.0	4.0	2.5
[B] HNWI (mn)	0.13	0.26	0.31	0.39	0.91	7.6	8.0	9.0	5.5
Total Population (mn)	1,170	1,350	1,380	1,410	1,510				
Share of HNWI in total population (bps)	1.1	1.9	2.2	2.7	6.1				
Market share of Ethos (%)		14.3	15.2	19.5	25.0				
[1] Ethos Luxury Watch Revenues (Rs bn)		4.6	5.5	11.8	52.8		20.8	16.2	8.1
Certified pre-owned (CPO) market (Rs bn)		0.45		7.5	73.9		75.7	25.7	9.5
% of Swiss Satch Sales in India		1.4		12.5	35.0				
Organized CPO market (Rs bn)		0.1		4.5	62.8		104.9	30.1	
Organized share (%)		27.8		60.0	85.0				
[2] Ethos CPO Revenues (Rs bn)		0.1	0.31	1.1	20.0		59.5	33.2	9.5
Ethos share (% of organized)				25.1	31.8				
[3] New Segments Revenues** (Rs bn)				0.5	5.6			28.0	9.5
Total Ethos Revenue [1] + [2] + [3], Rs bn		4.7	5.8	13.4	78.4		23.3	19.3	8.5
Ethos - EBITDA (Rs bn)		0.23	0.44	1.38	10.2		43.2	22.1	8.5
Ethos - EBITDA margin (%)		4.9	7.7	10.3	13.0				
Depreciation (% of EBITDA)		28.4	15.6	10.5	6.0				
Ethos - EBIT (Rs bn)		0.16	0.37	1.23	9.58		49.7	22.8	8.5

Source: Emkay Research; *India Swiss watch sale is sum of watch imports from Switzerland, UK, EU, Dubai, and Singapore, adjusted for Import Duty, GST and distribution commissions; **New segment revenues are those from luxury travel bags (Rimowa) and jewelry (Messika)

Exhibit 6: Ethos – Target EV/EBITDA derived from a two-stage growth model

Particulars (Rs bn)	
Revenue CAGR [FY22E-25E] (%)	32
EBITDA CAGR [FY22E-25E] (%)	46
Net debt-to-EV (%)	-11
Adj. beta vs Nifty (#)	1.00
Stage-1: FY25E-35E	
EBITDA in Yr-0 [FY25E] (Rs)	1.4
EBITDA in Yr-1 (Rs bn)	1.7
EBITDA CAGR (%)	22.5
Years of growth [n]	10.0
Incremental RoIC (%)	20.0
WACC (%)	12.5
Tax rate (%)	25.2
Sustainable D&A-to-EBITDA (%)	6.0
Net debt to EV (%)	-11
Implied FCFF ratio (%)	-13
Revenues in FY35E	102
Terminal stage	
Terminal EBITDA growth (%)	8.5
Incremental RoIC (%)	20.0
Implied FCFF ratio (%)	57.5
Fair value EV/EBITDA in Mar-25E (x)	19.8
EV in Mar-25E	33
Dec-23 NPV of FCFFs	(0.5)
Dec-23E EV	28
Adj. net debt	(3.0)
Fair value of Equity in Dec-23E (x)	31
Dec-24E EBITDA	1.3
Implied fair value EV/EBITDA in Dec-23E (x)	21.9
Premium applied to FV (%) [a]	5.0
Target EV/EBITDA in Dec-23E (x)	23.0
Target market-cap in Dec-23E	33
Shares o/s (mn)	23.3
Target price in Dec-23E (Rs/share)	1,400

Source: Emkay Research; [a] Premium applied for front-loading of growth

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	3,866	5,773	7,783	10,398	13,386
Expenditure	3,469	5,104	6,650	8,957	11,513
EBITDA	397	669	1,133	1,441	1,874
Depreciation	325	315	361	451	525
EBIT	72	354	773	990	1,349
Other Income	164	128	80	150	165
Interest expenses	170	167	140	171	194
PBT	66	315	713	969	1,320
Tax	23	81	180	244	333
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	1	0	0	0	0
Reported Net Income	44	234	533	725	987
Adjusted PAT	44	234	533	725	987

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	182	191	233	233	233
Reserves & surplus	1,374	2,126	6,367	7,092	8,079
Net worth	1,556	2,317	6,600	7,325	8,312
Minority Interest	0	0	0	0	0
Loan Funds	1,400	1,613	1,425	1,368	1,451
Net deferred tax liability	0	0	0	0	0
Total Liabilities	2,956	3,930	8,026	8,693	9,763
Net block	1,144	1,295	1,504	1,655	1,733
Investment	8	16	16	16	16
Current Assets	2,524	3,454	7,743	8,674	10,141
Cash & bank balance	205	398	3,244	2,749	2,586
Other Current Assets	219	505	533	712	917
Current liabilities & Provision	720	835	1,237	1,652	2,127
Net current assets	1,804	2,619	6,506	7,022	8,014
Misc. exp	0	0	0	0	0
Total Assets	2,956	3,930	8,026	8,693	9,763

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	(97)	187	633	819	1,155
Other Non-Cash items	0	0	0	0	0
Chg in working cap	271	(622)	(1,042)	(1,011)	(1,155)
Operating Cashflow	646	(34)	(88)	186	386
Capital expenditure	(107)	(97)	(169)	(203)	(203)
Free Cash Flow	540	(131)	(257)	(17)	183
Investments	(1)	(8)	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	56	23	(89)	(53)	(38)
Equity Capital Raised	13	527	3,750	0	0
Loans Taken / (Repaid)	(238)	74	(394)	(200)	0
Dividend paid (incl tax)	0	0	0	0	0
Other Financing Cash Flow	(318)	(333)	(318)	(413)	(496)
Financing Cashflow	(607)	204	3,023	(628)	(511)
Net chg in cash	96	193	2,845	(495)	(162)
Opening cash position	109	205	398	3,244	2,749
Closing cash position	205	398	3,244	2,749	2,586

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	10.3	11.6	14.6	13.9	14.0
EBIT Margin	1.9	6.1	9.9	9.5	10.1
Effective Tax Rate	35.1	25.8	25.2	25.2	25.2
Net Margin	1.1	4.0	6.9	7.0	7.4
ROCE	7.6	14.0	14.3	13.6	16.4
ROE	2.9	12.1	12.0	10.4	12.6
RoIC	1.6	8.4	14.0	13.8	15.4

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	2.4	12.3	22.9	31.1	42.4
CEPS	20.3	28.8	38.4	50.5	64.9
BVPS	85.4	121.4	283.3	314.4	356.7
DPS	0.0	0.0	0.0	0.0	0.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	420.7	83.1	44.5	32.8	24.1
P/CEPS	50.3	35.4	26.6	20.2	15.7
P/BV	11.9	8.4	3.6	3.2	2.9
EV / Sales	5.1	3.6	2.8	2.2	1.7
EV / EBITDA	49.7	30.9	19.3	15.5	12.1
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	0.8	0.5	(0.3)	(0.2)	(0.1)
Net Debt/EBIDTA	3.0	1.8	(1.6)	(1.0)	(0.6)
Working Cap Cycle (days)	151.0	140.4	153.0	150.0	148.0

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	(15.6)	49.3	34.8	33.6	28.7
EBITDA	(23.0)	68.5	69.4	27.1	30.0
EBIT	(61.7)	391.9	118.3	28.1	36.2
PAT	0.0	430.2	128.1	35.9	36.2

Quarterly (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q2FY23	Q2FY23
Revenue	1,344	1,953	1,587	1,777	1,777
EBITDA	129	260	211	260	260
EBITDA Margin (%)	9.6	13.3	13.3	14.7	14.7
PAT	27	125	78	136	136
EPS (Rs)	1.6	6.7	4.1	5.8	5.8

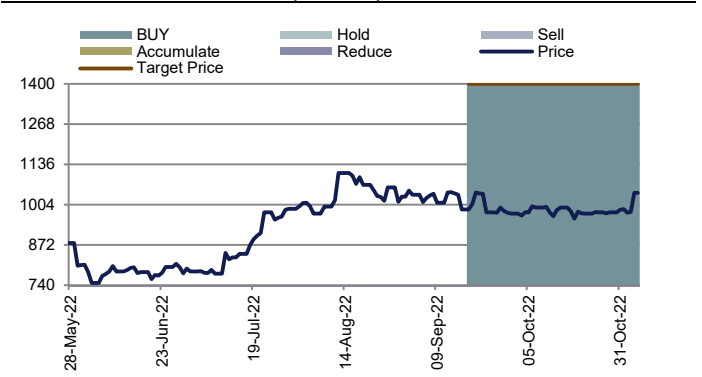
Source: Company, Emkay Research

RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period	Rating	Analyst
18-Sep-22	988	1,400	12m	Buy	Devanshu Bansal

Source: Company, Emkay Research

RECOMMENDATION HISTORY (Rs/share)



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 08 Nov 2022 11:37:04 (SGT)

Dissemination Date: 08 Nov 2022 11:38:04 (SGT)

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