

Ethos

Refer to important disclosures at the end of this report

Strong beat in a challenging Q3; Jan-23 outlook is also encouraging

Ethos reported its best-ever quarter, with Revenue/EBITDA/PAT beating our estimates by 4%/8%/24%. Revenue grew 18% YoY in a challenging quarter, led by a strong 16% SSG. Encouragingly, healthy growth trends have continued in Jan-23 as well. Store adds were modest, with 2 additions in Q3; but the momentum is expected to pick-up, as Ethos maintained its target to open 40 stores over the next 24 months (vs. 50 stores at end-9MFY23). Higher number of new adds is led by healthy online leads and improving focus of brands for Tier-1 cities (non-metro). While the Q3 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 a strong EBITDA CAGR of 27% along with a stable RoIC of ~15%, led by topline growth and stable EBITDA margins. We maintain BUY, with an unchanged Target Price of Rs1,400/share (based on an unmodified multiple of 22x FY25 EBITDA pre-IndAS).

Results Summary: Revenue grew 18% to Rs2.3bn, led by 16% SSG. CPO business saw a relatively-lower growth, of a single-digit, due to low availability of watchmakers and supply-chain constraints in China. But, Ethos expects growth revival in the segment, with reopening of the China market. EBITDA margins (Pre-IndAS) improved 180bps to 12.1%, led by 200bps increase in gross margins. Adjusting for one-off costs related to the GPHG event, EBITDA margin improvement was 270bps. The better gross margins were led by lower discounting and higher exclusive mix. Encouragingly, inventory days stayed low, at ~153 days at end Dec-23 (vs. 175-180 historically). Store adds were modest (2 additions in Q3), but Ethos maintained its target to open 40 stores in coming 24 months (vs. 50 stores at Dec-22 end).

Earnings-call KTAs: 1) Ethos entered the Indore market with a RADO boutique in Q3, and opened an MBO in Bangalore, taking the total number of boutiques to 50. 2) Ethos plans to open 40 new stores across tier-1 cities like Surat, Raipur, Bhubaneswar, Cochin, Ranchi, and Siliguri as well as flagship stores in metros like Mumbai, Ahmedabad, Hyderabad and Gurgaon. 3) Ethos entered into exclusive brand agreements with Bell & Ross, Speake-Marin & Trilobe and Tutima in Q3. In 9MFY23, share of exclusive brands was ~27%. 4) Bell & Ross was already being retailed at other retailers in India, but has signed an exclusive distribution agreement with Ethos now. 5) Ethos' share of repeat sales rose to 46% in 9MFY23 vs. 41% in FY22, suggesting improving brand loyalty and superior consumer experience. 6) Share of luxury and high-luxury watch sales remained elevated at ~65% in 9MFY23 vs. 48% in FY20. 7) For the CPO business, Ethos is moving to a hybrid model, with 30% sales on a consignment basis; this is expected to further rise to ~50% in FY24. 8) Ethos has partnered with 20 luxury brands, to design exclusive products for Ethos which are more relevant in the Indian context 9) Ethos expects Rimowa to start operations in Q1FY24, followed by Messika in FY24.

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	3,866	5,773	7,758	10,325	13,220
EBITDA	397	669	1,147	1,427	1,830
EBITDA margin (%)	10.3	11.6	14.8	13.8	13.8
APAT	44	234	578	709	944
EPS (Rs)	2.4	12.3	24.8	30.4	40.5
EPS (% chg)	0.0	406.1	102.2	22.7	33.2
ROE (%)	2.9	12.1	12.9	10.1	12.1
P/E (x)	414.1	81.8	40.5	33.0	24.8
EV/EBITDA (x)	49.0	30.4	18.7	15.4	12.2
P/BV (x)	11.7	8.3	3.5	3.2	2.8

Source: Company, Emkay Research

CMP	Target Price
Rs 1,003 as of (February 3, 2023)	Rs 1,400 (■) 12 months
Rating	Upside
BUY (■)	39.6 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	8/1
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	Buy

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	24.8	30.4
Consensus	24.0	31.6
Mean Consensus TP (12M)	Rs 1,338	

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)	23 / 0.29
Daily Avg Volume (nos.)	45,394
Daily Avg Turnover (USD mn)	0.5

Shareholding Pattern Dec '22

Promoters	64.7%
FIIIs	7.5%
DIIIs	9.3%
Public and Others	18.5%

Price Performance

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

Relative price trend



Source: Bloomberg

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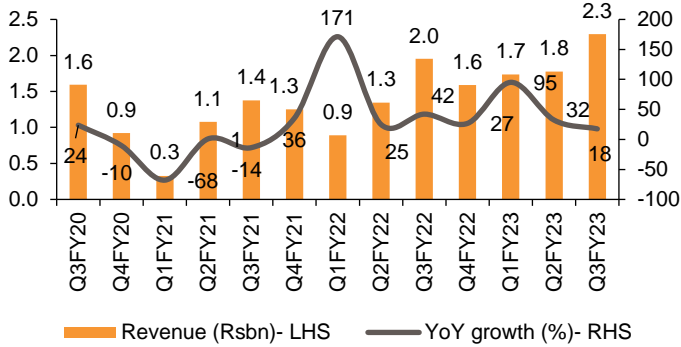
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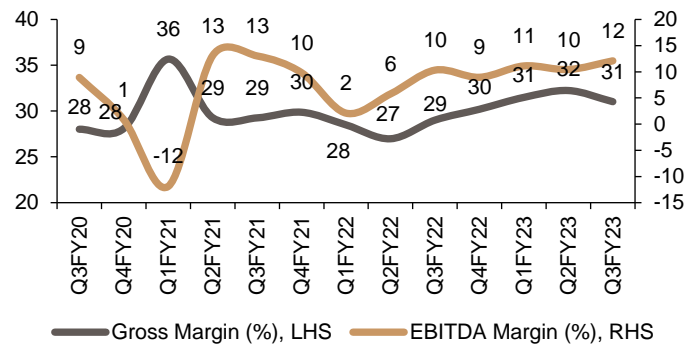
Story in Charts

Exhibit 1: Topline grew 18%, led by 16% SSG; the remaining growth is attributed to new store additions



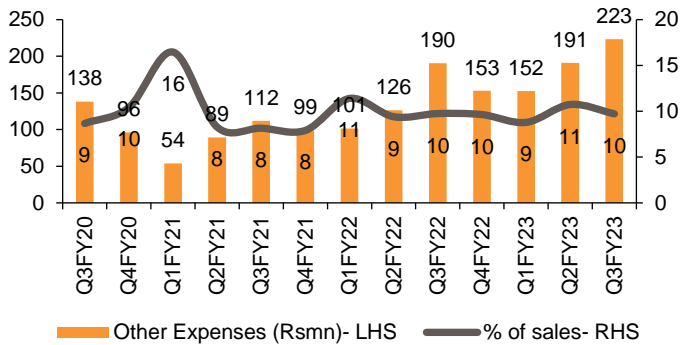
Source: Company, Emkay Research

Exhibit 2: Gross/EBITDA margins improved 180-200bps; adjusted for the GPHG event cost, EBITDA margin improvement was 270bps



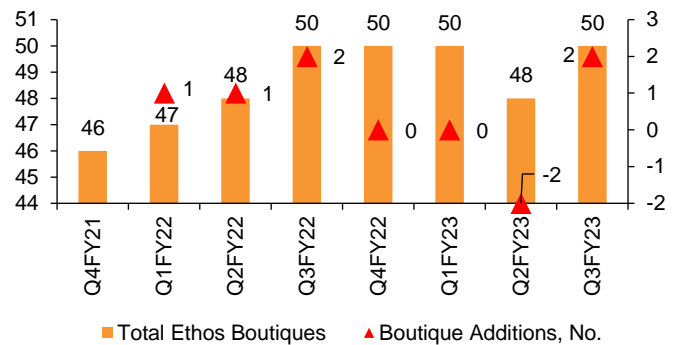
Source: Company, Emkay Research

Exhibit 3: Other expenses increased sequentially on account of the Rs20mn one-off cost related to the GPHG event



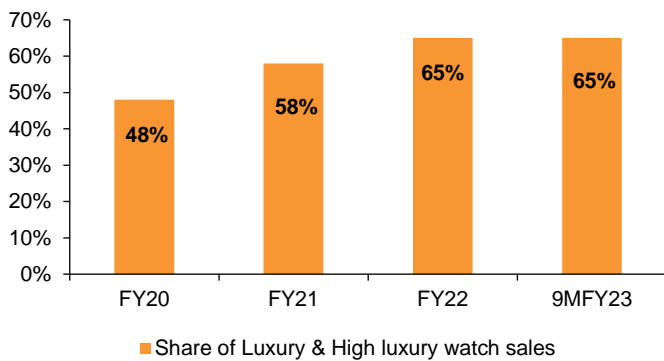
Source: Company, Emkay Research

Exhibit 4: Ethos added 2 new stores this quarter, leading to total count of 50 boutiques



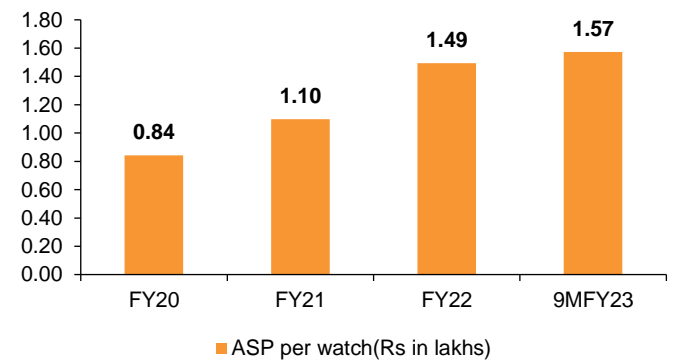
Source: Company, Emkay Research

Exhibit 5: Share of luxury and high-luxury watch sales remains elevated at ~65% vs. 48% in FY20



Source: Company, Emkay Research;

Exhibit 6: ASP continued to inch-up in 9M, led by both mix improvement and price hikes



Source: Company, Emkay Research

Exhibit 7: Summary of quarterly results

(Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY (%)	QoQ (%)	FY22TD	FY23TD	Growth (%)
Revenue	1,953	1,587	1,736	1,777	2,297	17.6	29.2	4,186	5,810	38.8
Expenditure	1,693	1,376	1,465	1,517	1,938	14.5	27.8	3,730	4,920	31.9
Consumption of RM	1,386	1,108	1,189	1,204	1,584	14.3	31.6	3,004	3,977	32.4
as % of sales	71%	70%	69%	68%	69%			72%	68%	
Employee Cost	116	115	124	122	131	12.9	7.5	309	376	21.9
as % of sales	6%	7%	7%	7%	6%			7%	6%	
Other Expenditure	190	153	152	191	223	17.3	17.0	418	567	35.5
as % of sales	11%	11%	10%	13%	12%			10%	10%	
EBITDA	260	211	270	260	359	37.7	37.6	456	889	95.2
Depreciation	79	80	81	82	88	11.7	6.6	228	252	10.6
EBIT	182	131	189	178	271	49.0	52.0	228	638	179.6
Other Income	31	19	22	37	37	18.9	0.1	108	96	-11.2
Interest cost	43	45	42	33	31	-28.1	-7.1	119	107	-10.4
PBT	169	105	169	181	276	63.2	52.4	216	626	189.5
Tax	45	27	43	46	70	57.4	52.9	56	159	182.7
APAT	124	78	126	135	206	65.3	52.2	160	467	191.8
Share of JV	0	0	-2	0	-1	75.9	94.5	0	-3	
Reported PAT	125	78	128	136	207	65.3	52.4	160	470	194.1
Reported EPS (Rs)	6.7	4.3	6.6	6.6	9.5	42.8	44.8	8.7	22.7	159.6

(%)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	(bps)	(bps)	FY22TD	FY23TD	(bps)
Gross margin	29.0	30.2	31.5	32.2	31.0	200	-120	28.2	31.5	330
EBITDA margin	13.3	13.3	15.6	14.7	15.6	230	100	10.9	15.3	440
EBIT margin	9.3	8.2	10.9	10.0	11.8	250	180	5.4	11.0	550
PBT margin	8.7	6.6	9.7	10.2	12.0	340	180	5.2	10.8	560
PAT margin	6.4	4.9	7.3	7.6	9.0	260	140	3.8	8.0	420
Effective Tax rate	26.4	25.4	25.2	25.4	25.5	-90	10	26.0	25.4	-60.0

Source: Company, Emkay Research

Exhibit 8: Actual vs. Estimates (Q3FY23)

(Rs mn)	Actual	Estimates Emkay	Variation	Comments
Revenues	2,297	2,214	3.7%	SSG was better than expected in a challenging quarter
EBITDA	359	334	7.5%	Higher share of in-house brands and op. leverage led to better margins
EBITDA Margin (%)	15.6%	15.1%	54	
Reported PAT	207	166	24.2%	EBITDA beat and higher other income led to the PAT beat

Source: Company, Emkay Research

Exhibit 9: Change in estimates

Rs mn	FY23E			FY24E			FY25E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Revenue	7,783	7,758	-0.3	10,251	10,325	0.7	13,106	13,220	0.9
EBITDA	1,133	1,147	1.2	1,413	1,427	1.0	1,818	1,830	0.6
EBITDA margins (%)	14.6	14.8	20 bps	13.8	13.8	0 bps	13.9	13.8	0 bps
PAT	533	578	8.3	704	709	0.6	946	944	-0.2
EPS (Rs)	22.9	24.8	8.3	30.2	30.4	0.6	40.6	40.5	-0.2

Source: Company, Emkay Research

Exhibit 10: 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	251	238	Buy	365	2.2	5.6	8.2	115.7	44.8	30.4	14.0	10.6	8.6
Jubilant FoodWorks	430	284	Hold	480	6.6	8.5	10.6	64.7	50.9	40.6	23.4	19.2	16.1
Page Industries	39,816	444	Buy	50,500	618.5	730.8	872.2	64.4	54.5	45.6	42.9	36.3	30.7
Titan Company	2,463	2,187	Buy	2,940	37.8	46.1	56.4	65.1	53.4	43.7	43.6	35.8	29.4
Westlife Development	691	108	Hold	810	7.9	10.3	12.9	87.7	67.1	53.4	26.5	22.3	18.8
TCNS Clothing	476	29	Hold	570	1.8	16.7	21.2	263.3	28.5	22.4	17.9	8.6	7.0
Devyani International	152	183	Buy	230	2.1	2.8	3.7	73.2	54.4	41.2	26.6	19.6	15.6
Sapphire Foods	1,158	74	Buy	1,700	19.6	34.8	40.6	59.1	33.2	28.5	15.7	11.3	8.8
Ethos	1,003	23	Buy	1,400	24.8	30.4	40.5	40.5	33.0	24.8	17.6	14.2	11.1

Source: Company, Emkay Research

Exhibit 11: Ethos' earnings growth build-up

Ethos – Growth build-up	Financial Year					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	19.9	25.0				
[1] Ethos Luxury Watch Revenues (Rs bn)		4.6	5.5	12.0	52.8		21.3	16.0	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	1.0	17.6		55.7	33.1	9.5
Ethos share (% of organized)				22.3	28.0				
[3] New Segment Revenue** (Rs bn)				0.2	2.8			30.0	9.5
Total Ethos Revenue [1] + [2] + [3], Rs bn		4.7	5.8	13.2	73.2		23.0	18.7	8.5
Ethos - EBITDA (Rs bn)		0.23	0.44	1.33	9.5		42.3	21.7	8.5
Ethos - EBITDA margin, %		4.9	7.7	10.1	13.0				
Depreciation (% of EBITDA)		28.4	15.6	11.9	6.0				
Ethos - EBIT (Rs bn)		0.16	0.37	1.17	8.94		48.3	22.5	8.5

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

Exhibit 12: Ethos: Target EV/EBITDA multiple derived from a two-stage growth model

(Rs bn)	
Revenue CAGR [FY22E-25E] (%)	32
EBITDA CAGR [FY22E-25E] (%)	45
Net debt-to-EV (%)	-11
Adj. beta vs Nifty (#)	1.00
Stage-1: FY25E-35E	
EBITDA in Yr-0 [FY25E] (Rs)	1.3
EBITDA in Yr-1 (Rs bn)	1.6
EBITDA CAGR (%)	22.5
Years of growth [n]	10.0
Incremental RoIC (%)	20
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	101
Terminal stage	
Terminal EBITDA growth (%)	8.5
Incremental RoIC (%)	20
Implied FCFF ratio (%)	57.3
Fair value EV/EBITDA in Mar-25E (x)	19.7
EV in Mar-25E	32
Dec-23 NPV of FCFFs	(0.7)
Dec-23E EV	28
Adj. net debt	(3.2)
Fair value of Equity in Dec-23E (x)	31
Dec-24E EBITDA	1.3
Implied fair value EV/EBITDA in Dec-23E (x)	20.9
Premium applied to FV (%) [a]	5.0
Target EV/EBITDA in Dec-23E (x)	22.0
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	7,758	10,325	13,220
Expenditure	3,469	5,104	6,611	8,898	11,390
EBITDA	397	669	1,147	1,427	1,830
Depreciation	325	315	357	459	539
EBIT	72	354	791	968	1,290
Other Income	164	128	121	150	165
Interest expenses	170	167	140	171	194
PBT	66	315	772	947	1,261
Tax	23	81	195	239	318
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	1	0	0	0	0
Reported Net Income	44	234	578	709	944
Adjusted PAT	44	234	578	709	944

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	6,411	7,120	8,063
Net worth	1,556	2,317	6,644	7,353	8,296
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	8,070	8,721	9,748
Net block	1,144	1,295	1,474	1,719	1,834
Investment	8	16	16	16	16
Current Assets	2,524	3,454	7,431	8,117	9,347
Cash & bank balance	205	398	3,371	2,714	2,429
Other Current Assets	219	505	531	707	905
Current liabilities & Provision	720	835	850	1,131	1,449
Net current assets	1,804	2,619	6,580	6,986	7,898
Misc. exp	0	0	0	0	0
Total Assets	2,956	3,930	8,070	8,721	9,748

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	(97)	187	651	797	1,096
Other Non-Cash items	0	0	0	0	0
Chg in working cap	271	(622)	(989)	(1,062)	(1,198)
Operating Cashflow	646	(34)	(36)	127	314
Capital expenditure	(107)	(97)	(135)	(305)	(254)
Free Cash Flow	540	(131)	(171)	(178)	60
Investments	(1)	(8)	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	56	23	(14)	(155)	(89)
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	2,973	(657)	(286)
Opening cash position	109	205	398	3,371	2,714
Closing cash position	205	398	3,371	2,714	2,429

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	10.3	11.6	14.8	13.8	13.8
EBIT Margin	1.9	6.1	10.2	9.4	9.8
Effective Tax Rate	35.1	25.8	25.2	25.2	25.2
Net Margin	1.1	4.0	7.4	6.9	7.1
ROCE	7.6	14.0	15.2	13.3	15.8
ROE	2.9	12.1	12.9	10.1	12.1
RoIC	1.6	8.4	14.4	13.6	14.5

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	2.4	12.3	24.8	30.4	40.5
CEPS	20.3	28.8	40.1	50.1	63.6
BVPS	85.4	121.4	285.2	315.6	356.1
DPS	0.0	0.0	0.0	0.0	0.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	414.1	81.8	40.5	33.0	24.8
P/CEPS	49.8	35.1	25.2	20.2	15.9
P/BV	11.7	8.3	3.5	3.2	2.8
EV / Sales	5.0	3.5	2.8	2.1	1.7
EV / EBITDA	49.0	30.4	18.7	15.4	12.2
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	(1.7)	(0.9)	(0.5)
Working Cap Cycle (days)	151.0	140.4	151.0	151.0	151.0

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	(15.6)	49.3	34.4	33.1	28.0
EBITDA	(23.0)	68.5	71.5	24.4	28.2
EBIT	(61.7)	391.9	123.4	22.4	33.3
PAT	0.0	430.2	146.9	22.7	33.2

Quarterly (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Revenue	1,953	1,587	1,736	1,777	2,297
EBITDA	260	211	270	260	359
EBITDA Margin (%)	13.3	13.3	15.6	14.7	15.6
PAT	125	78	128	136	207
EPS (Rs)	6.7	4.1	5.5	5.8	8.8

Source: Company, Emkay Research

Shareholding Pattern (%)	Jan-22	May-22	Jun-22	Sep-22	Dec-22
Promoters	82.3	64.9	65.2	65.2	64.7
FIs	-	7.5	7.5	7.6	7.5
DIs	17.7	6.1	7.0	7.5	9.3
Public and Others	-	21.5	20.4	19.8	18.5

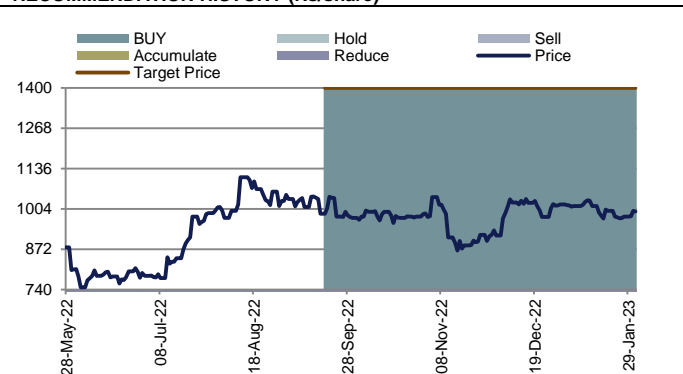
Source: Capitaline

RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period	Rating	Analyst
09-Jan-23	1,017	1,400	12m	Buy	Devanshu Bansal
25-Nov-22	918	1,400	12m	Buy	Devanshu Bansal
08-Nov-22	1,017	1,400	12m	Buy	Devanshu Bansal
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%

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