

Best-in-class growth trends; brand support to dilute GST overhang

Retail ▶ Result Update ▶ November 9, 2024

TARGET PRICE (Rs): 3,350

Ethos's Q2 EBITDA was ~13% lower than estimate, led by a 250bps margin miss on account of INR depreciation and growth investments (higher store addition). Despite muted trends across most consumption categories, revenue growth was top-notch at 26% (19% SSG) and 300bps above our estimate. Trends have further accelerated, with 47% growth in Oct-24, along with a pick-up in store adds (12 YTD and 25 expected in FY25). Addressing concerns around potential GST increase, Ethos highlighted that global brands are eager to participate in India's long-term growth opportunity, which should drive healthy support in case of an adverse GST outcome and thus help achieve its targeted 10x topline in 10 years. With initial success in *Rimowa*, the outlook is robust for other luxury categories, with expected launch of *Messika* (jewelry) and ramp-up of *Favre Leuba* in Q4. We clip our TP by ~9%, due to a ~7% cut to our multiple, to factor-in the GST overhang. Given the confident commentary, we retain BUY; our TP is revised down to Rs3,350 (35x Sep-26E EBITDA).

Ethos: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	7,885	9,990	12,563	16,141	20,564
EBITDA	1,144	1,517	1,840	2,642	3,505
Adj. PAT	603	833	938	1,261	1,670
Adj. EPS (Rs)	25.8	34.0	38.3	51.5	68.2
EBITDA margin (%)	14.5	15.2	14.7	16.4	17.0
EBITDA growth (%)	71.0	32.6	21.3	43.5	32.7
Adj. EPS growth (%)	110.7	31.8	12.6	34.5	32.4
RoE (%)	14.0	11.0	10.1	12.1	14.1
RoIC (%)	18.7	16.9	14.9	16.5	17.6
P/E (x)	109.7	83.2	73.9	55.0	41.5
EV/EBITDA (x)	55.9	43.5	36.3	25.7	19.5
P/B (x)	10.5	7.8	7.1	6.3	5.5
FCFF yield (%)	(0.9)	(0.1)	(0.8)	(0.6)	0.4

Source: Company, Emkay Research

Strong performance sustains; FX-volatility impacts margin: Q2 revenue grew a healthy 26% to Rs3.0bn, led by ~19% SSG, with balance growth coming from network expansion. Volume-led growth was strong at ~17%, led by pick-up following the removal of election-related restrictions, while balance growth was ASP-led with a better high-luxury watch mix. Exclusive brands mix improved to ~31% in Q2 (vs 29% for FY24). Exclusive brand count reached ~56, with addition of *Hautlence* in Q2. The CPO business clocked ~Rs230mn for Q2, registering ~17% growth. Gross margin (GM) declined by ~100bps to 30.2% in Q2, owing to higher foreign-exchange fluctuations. Dip in GM and higher operating expenses on account of accelerated store opening led to a ~160bps decline in EBITDA to 14.2%. Pre-IndAS EBITDA was down by 140bps to 10.1% in Q2 vs 11.5% last year. Ethos added 5/8 stores in Q2/H1, taking the store count to 68 at end-Q2. Q3TD store-count stood at 72, with 4 additions in Oct-24. It remains confident of exiting FY25 with ~25 net store-adds (upper band of the guided 20-25 range).

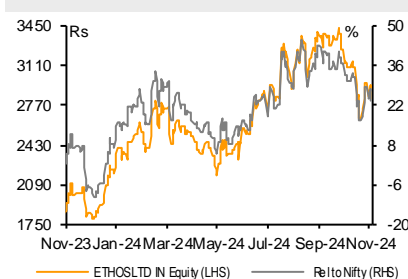
Earnings-call KTAs: 1) Ethos stays contented with its Q2 delivery, despite challenges of lower wedding dates, heavy rains in certain areas, and *Shradh* falling in Q2 vs Q3 last year. Also, the supply chain saw an intermediate blip, with logistics-related challenges in Switzerland. 2) Ethos remains optimistic for H2, given better festive/wedding trends, and has seen ~47% growth in Oct-24. 3) Foreign-exchange loss on account of sharp INR depreciation was ~Rs46.5mn. 4) Company's first *Messika* boutique is expected to open in Q4. Ethos piloted *Messika* jewelry in 2 watch stores, and has since seen strong traction, thus granting confidence on 8-10 store openings over 5 years. 5) Revenue-neutral price hike of ~8.5% is expected from brands, on a potential GST hike; but Ethos remains confident of sustaining strong trends even in an increased GST scenario. 6) The EFTA duty-related benefit is expected to flow from FY26, as the GoI has not yet announced a rate cut. 7) Ethos enjoys higher traction/consumer loyalty vs unorganized sellers, basis moats like authorized dealerships, uniform consumer experience across store, multi-brand presence, better servicing experience, higher marketing muscle, and better digital reach. 8) *Rimowa* continues to see strong traction, with Ethos aiming to scale it ~10x over a 5Y period. 9) Talks are ongoing for onboarding more luxury lifestyle brands, including luggage-related, and partnerships are likely to be announced in due course. 10) The *Favre Leuba* launch in Geneva saw positive traction; the brand is in talks with potential partners. Pre-orders stood at ~Rs100k CHF, without any discounts. An India-launch is expected in Jan-25, with *Favre Leuba* expected to be available across 40 stores. 11) Ethos indicated a similar ROCE across different tier cities, as lower operating costs offset the impact of lower sales. 12) Ethos is confident of maintaining an over 30% gross margin, even if a potential GST-related hike is effected.

Target Price – 12M	Sep-25
Change in TP (%)	(9.5)
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	18.3
CMP (08-Nov-24) (Rs)	2,831.8

Stock Data	Ticker
52-week High (Rs)	3,525
52-week Low (Rs)	1,768
Shares outstanding (mn)	24.5
Market-cap (Rs bn)	69
Market-cap (USD mn)	822
Net-debt, FY25E (Rs mn)	-2,487
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	188.2
ADTV-3M (USD mn)	2.2
Free float (%)	36.0
Nifty-50	24,148
INR/USD	84.4
Shareholding, Sep-24	
Promoters (%)	51.2
FPIs/MFs (%)	12.3/15.6

Price Performance

(%)	1M	3M	12M
Absolute	(10.1)	(7.5)	58.6
Rel. to Nifty	(6.9)	(7.6)	27.7

1-Year share price trend (Rs)**Devanshu Bansal**

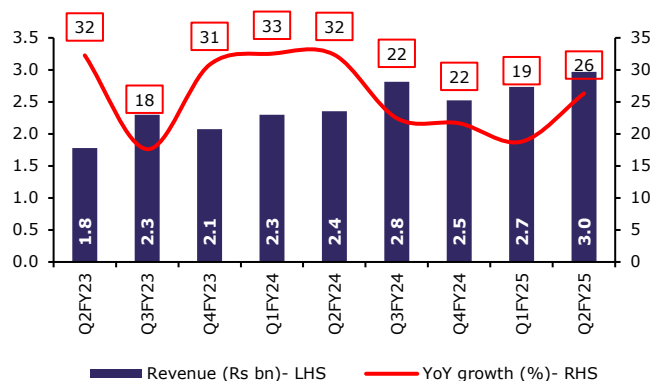
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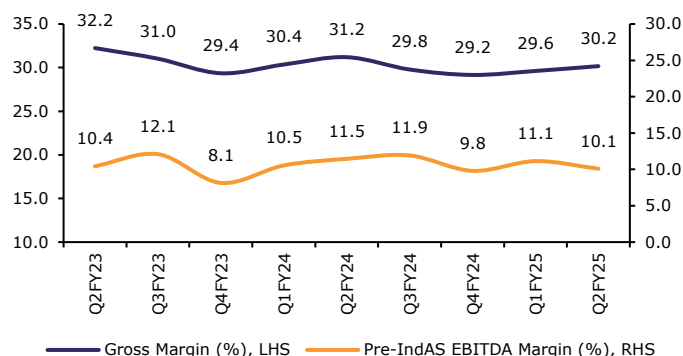
Story in Charts

Exhibit 1: Topline grew 26%, led by ~19% SSG, with the remaining helped by growth in the average store-count



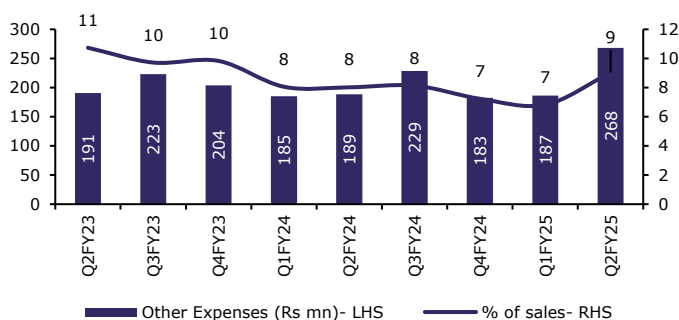
Source: Company, Emkay Research

Exhibit 2: Gross margin dipped by ~100bps on INR-CHF FX; the ~150bps in EBITDA margin dip is due to accelerated store openings



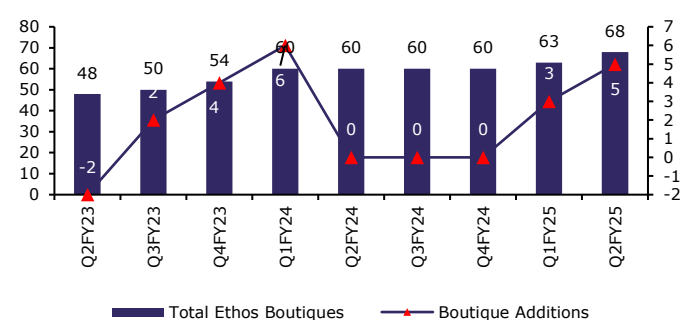
Source: Company, Emkay Research

Exhibit 3: Pick-up in new store openings led to higher other expenses in Q2



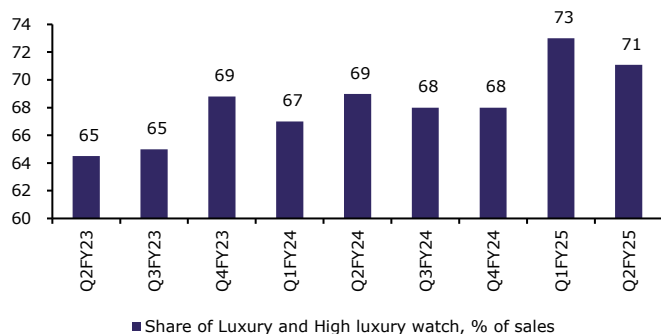
Source: Company, Emkay Research

Exhibit 4: Ethos added 5 stores in Q2; guidance to add ~25 stores is intact, with the pace expected to sustain in H2



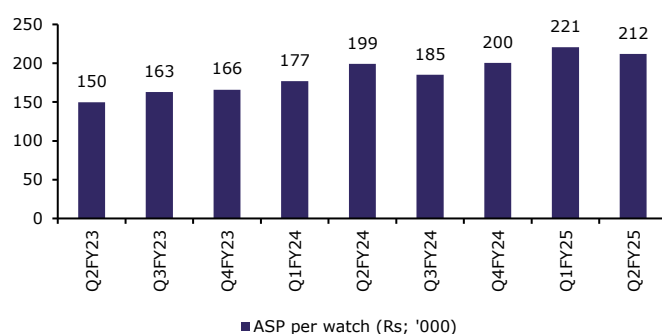
Source: Company, Emkay Research

Exhibit 5: Share of luxury and high-luxury watch sales increased to 71% in Q2 vs 69% YoY



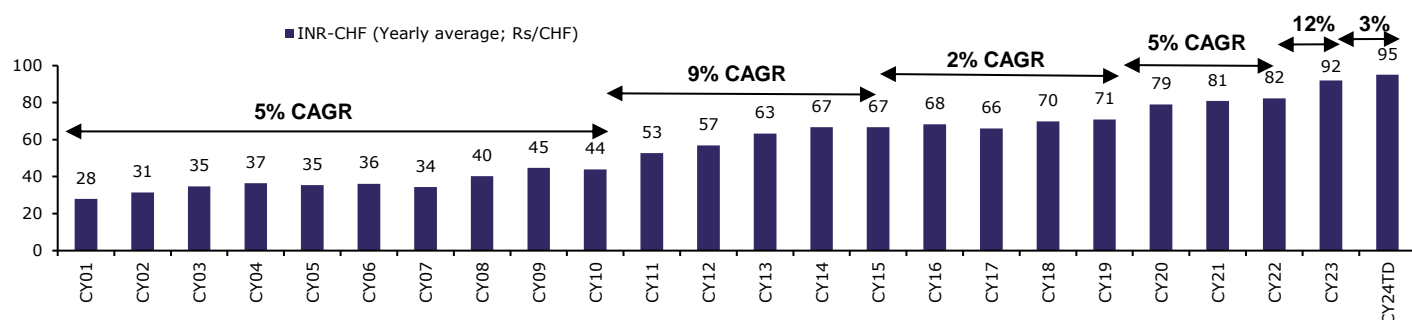
Source: Emkay Research (Ballpark numbers based on analyst's calculation)

Exhibit 6: ASP increased ~6% in Q2, led by mix improvements toward high-end watches



Source: Emkay Research (Ballpark numbers based on analyst's calculation)

Exhibit 7: CY24TD CHF-INR trends are largely stable (3%) vs the sharp 12% depreciation in CY23; however, Q2 gross margin was impacted by the sharp CHF appreciation from Aug-24



Source: Company, Emkay Research

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Exhibit 8: Swiss exports to India saw strong growth of ~22% in CY24TD in CHF terms; Ethos has grown largely in line, at ~23% in the comparable period

Swiss watch exports to India (CHF mn)	CY18	CY19	CY20	CY21	CY22	CY23	CY23TD	CY24TD	YoY (%)
January	12.6	10.9	11.4	10.3	10.7	13.9	13.9	13.6	-2.2
February	14.5	14.2	12.0	12.4	12.6	15.7	15.7	20.7	31.8
March	12.1	14.5	3.4	14.3	13.7	18.4	18.4	20.1	9.2
April	11.7	11.3	0.0	10.9	14.0	14.7	14.7	17.2	17.0
May	12.7	11.3	0.3	6.8	15.0	16.1	16.1	21.7	34.8
June	11.4	10.0	4.9	5.0	15.2	19.7	19.7	19.5	-1.0
July	11.5	11.2	7.4	11.3	17.4	17.7	17.7	25.7	45.2
August	11.1	10.3	7.9	12.9	14.2	17.5	17.1	24.8	45.0
September	15.3	13.8	10.5	15.0	17.8	20.5	20.5	24.3	18.5
October	13.4	12.4	12.4	21.6	23.0	22.3			
November	12.8	14.4	15.7	17.3	16.9	19.8			
December	13.6	11.7	12.9	19.0	17.3	22.8			
Total	152.7	146.1	98.8	156.8	187.8	219.1	153.8	187.6	22.0

Source: Federation of the Swiss Watch Industry, Emkay Research

Exhibit 9: Actual vs Estimates (Q2FY25)

(Rs mn)	Actual	Emkay estimate	Variation	Comments
Net Sales	2,971	2,880	3.2%	Topline was better than estimate due to better than expected SSG
EBITDA	422	483	-12.7%	EBITDA margin was lower due to ~130bps lower GM (higher CHF appreciation) and higher operating costs, on accelerated store addition
EBITDA margin	14.2%	16.8%	-258	
PAT	212	263	-19.1%	The higher PAT dip was due to lower EBITDA and marginally higher taxation

Source: Company, Emkay Research

Exhibit 10: Summary of quarterly results

Y/E, Mar (Rs mn)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)	H1FY24	H1FY25	YoY (%)
Revenue	2,352	2,812	2,525	2,732	2,971	26.3	8.7	4,652	5,704	22.6
Expenditure	1,979	2,367	2,165	2,300	2,550	28.8	10.9	3,940	4,849	23.1
Consumption of RM	1,618	1,975	1,789	1,923	2,075	28.2	7.9	3,220	3,998	24.2
As a % of sales	69%	70%	71%	70%	70%			69%	70%	
Employee costs	173	163	194	190	207	19.8	8.7	346	397	14.6
As a % of sales	7%	6%	8%	7%	7%			7%	7%	
Other expenditure	189	229	183	187	268	42.2	43.9	374	455	21.6
As a % of sales	10%	10%	8%	8%	11%			8%	8%	
EBITDA	373	445	360	433	422	13.1	-2.6	712	854	20.0
Depreciation	127	125	127	143	150	18.1	4.7	234	293	25.2
EBIT	246	320	233	290	272	10.5	-6.2	478	561	17.5
Other Income	43	62	84	64	61	43.5	-4.2	90	125	39.8
Interest	41	40	40	45	45	9.7	0.4	79	91	14.3
PBT	247	342	276	308	287	16.3	-6.8	488	596	22.1
Total Tax	63	88	67	79	74	16.8	-6.0	125	153	22.4
APAT	184	254	209	230	213	16.2	-7.0	363	443	22.0
Share of JV profit	-2	-1	-1	2	1			-4	3	
Reported PAT	186	255	210	228	212	14.3	-6.8	367	441	19.9
Reported EPS (Rs)	8.0	10.9	9.0	9.8	9.1	14.3	-6.8	15.7	18.9	19.9
(%)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	(bps)	(bps)	H1FY24	H1FY25	(bps)
Gross Margin	31.2	29.8	29.2	29.6	30.2	-100	60	30.8	29.9	-90
EBITDAM	15.8	15.8	14.2	15.8	14.2	-170	-170	15.3	15.0	-30
EBITM	10.4	11.4	9.2	10.6	9.1	-130	-150	10.3	9.8	-40
PBTM	10.5	12.2	10.9	11.3	9.7	-80	-160	10.5	10.4	0
PATM	7.8	9.0	8.3	8.4	7.2	-60	-120	7.8	7.8	0
Effective Tax rate	25.6	25.8	24.3	25.5	25.7	10	20	25.6	25.6	10.0

Source: Company, Emkay Research

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Exhibit 11: Peer Comparison

Companies	Price (Rs)	Mcap (Rs bn)	Reco	Target Price (Rs)	EPS (Rs)			P/E (x)			EV/EBITDA (x)*		
					FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Titan Company	3,186	2,829	Buy	4,050	39.5	54.3	70.5	80.6	58.6	45.2	50.1	38.8	31.4
Varun Beverages	592	1,922	Buy	750	7.7	10.4	13.4	76.5	56.8	44.3	42.6	33.5	28.1
Ethos	2,832	69	Buy	3,350	38.3	51.5	68.2	73.9	55.0	41.5	36.1	25.1	18.9
Aditya Vision	428	55	Buy	600	8.8	12.7	16.9	48.8	33.8	25.4	25.9	19.1	15.0
Page Industries	48,003	535	Reduce	39,000	604.3	730.2	866.8	79.4	65.7	55.4	51.6	43.3	36.9
ABFRL	297	318	Sell	280	-4.7	-1.7	-0.8	NA	NA	NA	19.8	14.2	11.5
Go Fashion	1,218	66	Buy	1,450	17.8	23.6	29.3	68.5	51.6	41.5	23.4	18.9	15.8
Jubilant FoodWorks	607	401	Add	650	3.6	6.7	8.9	167.5	90.2	68.4	26.1	21.3	18.3
Devyani International	171	206	Reduce	180	0.6	1.2	1.9	276.3	137.7	88.2	23.7	18.7	15.2
Westlife Foodworld	751	117	Add	925	2.0	8.1	11.6	378.4	93.2	64.8	32.6	22.4	18.4
Sapphire Foods	321	103	Add	375	0.8	2.9	4.6	382.9	112.1	69.8	21.3	16.3	13.0

Source: Company, Emkay Research; Note: *Post-IndAS-116 EBITDA

Exhibit 12: Changes in estimates

(Rs mn)	FY25E			FY26E			FY27E		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue	12,489	12,563	0.6	16,033	16,141	0.7	20,297	20,564	1.3
EBITDA*	1,454	1,314	-9.6	2,005	1,958	-2.3	2,694	2,650	-1.7
EBITDA margin (%)	11.6	10.5	-120 bps	12.5	12.1	-40 bps	13.3	12.9	-40 bps
Net profit	1,062	938	-11.7	1,379	1,261	-8.5	1,847	1,670	-9.6
EPS (Rs)	43.4	38.3	-11.7	56.3	51.5	-8.5	75.5	68.2	-9.6

Source: Company, Emkay Research, Note: *Pre-IndAS 116 EBITDA

Ethos: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	7,885	9,990	12,563	16,141	20,564
Revenue growth (%)	36.6	26.7	25.8	28.5	27.4
EBITDA	1,144	1,517	1,840	2,642	3,505
EBITDA growth (%)	71.0	32.6	21.3	43.5	32.7
Depreciation & Amortization	346	487	633	851	1,075
EBIT	798	1,030	1,208	1,791	2,429
EBIT growth (%)	125.4	29.2	17.2	48.3	35.6
Other operating income	0	0	0	0	0
Other income	146	236	245	150	120
Financial expense	142	160	199	256	317
PBT	802	1,106	1,254	1,686	2,232
Extraordinary items	0	0	0	0	0
Taxes	204	280	316	425	563
Minority interest	0	0	0	0	0
Income from JV/Associates	5	7	0	0	0
Reported PAT	603	833	938	1,261	1,670
PAT growth (%)	157.8	38.1	12.6	34.5	32.4
Adjusted PAT	603	833	938	1,261	1,670
Diluted EPS (Rs)	25.8	34.0	38.3	51.5	68.2
Diluted EPS growth (%)	110.7	31.8	12.6	34.5	32.4
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	14.5	15.2	14.7	16.4	17.0
EBIT margin (%)	10.1	10.3	9.6	11.1	11.8
Effective tax rate (%)	25.4	25.3	25.2	25.2	25.2
NOPLAT (pre-IndAS)	595	769	903	1,340	1,817
Shares outstanding (mn)	23.3	24.5	24.5	24.5	24.5

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	802	1,106	1,254	1,686	2,232
Others (non-cash items)	346	487	633	851	1,075
Taxes paid	(204)	(280)	(316)	(425)	(563)
Change in NWC	(985)	(1,007)	(1,534)	(1,902)	(1,927)
Operating cash flow	(39)	237	(9)	315	1,015
Capital expenditure	(558)	(297)	(540)	(756)	(759)
Acquisition of business	(5)	(219)	(60)	(50)	0
Interest & dividend income	146	236	245	150	120
Investing cash flow	(547)	(280)	(355)	(656)	(639)
Equity raised/(repaid)	3,397	1,750	0	0	0
Debt raised/(repaid)	(514)	(13)	0	0	0
Payment of lease liabilities	(319)	(422)	(526)	(684)	(855)
Interest paid	(26)	(9)	(10)	(10)	(10)
Dividend paid (incl tax)	0	0	0	0	0
Others	(63)	(94)	0	0	0
Financing cash flow	2,474	1,212	(536)	(694)	(865)
Net chg in Cash	1,888	1,168	(900)	(1,035)	(489)
OCF	(39)	237	(9)	315	1,015
Adj. OCF (w/o NWC chg.)	945	1,244	1,525	2,217	2,942
FCFF	(597)	(60)	(549)	(441)	256
FCFE	(593)	16	(503)	(546)	59
OCF/EBITDA (%)	(3.4)	15.6	(0.5)	11.9	29.0
FCFE/PAT (%)	(98.4)	1.9	(53.7)	(43.3)	3.6
FCFF/NOPLAT (%)	(100.4)	(7.8)	(60.8)	(32.9)	14.1

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	233	245	245	245	245
Reserves & Surplus	6,081	8,595	9,533	10,793	12,463
Net worth	6,315	8,840	9,777	11,038	12,708
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(86)	(90)	0	0	0
Total debt	80	67	67	67	67
Total liabilities & equity	6,309	8,816	9,844	11,105	12,775
Net tangible fixed assets	127	330	679	1,161	1,565
Net intangible assets	407	398	384	366	342
Net ROU assets	(93)	(129)	(221)	(340)	(489)
Capital WIP	40	0	0	0	0
Goodwill	0	0	0	0	0
Investments [JV/Associates]	21	240	300	350	350
Cash & equivalents	2,286	3,455	2,554	1,519	1,031
Current assets (ex-cash)	4,085	5,081	6,952	9,198	11,550
Current Liab. & Prov.	966	960	1,207	1,551	1,975
NWC (ex-cash)	3,119	4,121	5,746	7,647	9,574
Total assets	6,309	8,816	9,844	11,105	12,775
Net debt	(2,206)	(3,388)	(2,487)	(1,452)	(964)
Capital employed	6,309	8,816	9,844	11,105	12,775
Invested capital	3,962	5,122	6,990	9,236	11,394
BVPS (Rs)	270.5	361.1	399.4	450.9	519.1
Net Debt/Equity (x)	(0.3)	(0.4)	(0.3)	(0.1)	(0.1)
Net Debt/EBITDA (x)	(1.9)	(2.2)	(1.4)	(0.5)	(0.3)
Interest coverage (x)	0.2	0.1	0.1	0.1	0.1
RoCE (%)	20.7	16.7	15.6	18.5	21.4

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	109.7	83.2	73.9	55.0	41.5
P/CE(x)	69.7	52.5	44.1	32.8	25.3
P/B (x)	10.5	7.8	7.1	6.3	5.5
EV/Sales (x)	8.1	6.6	5.3	4.2	3.3
EV/EBITDA (x)	55.9	43.5	36.3	25.7	19.5
EV/EBIT(x)	80.1	64.0	55.3	37.9	28.1
EV/IC (x)	16.1	12.9	9.6	7.3	6.0
FCFF yield (%)	(0.9)	(0.1)	(0.8)	(0.6)	0.4
FCFE yield (%)	(0.9)	0.0	(0.7)	(0.8)	0.1
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
DuPont-RoE split					
Net profit margin (%)	7.6	8.3	7.5	7.8	8.1
Total asset turnover (x)	1.7	1.3	1.3	1.5	1.7
Assets/Equity (x)	1.1	1.0	1.0	1.0	1.0
RoE (%)	14.0	11.0	10.1	12.1	14.1
DuPont-RoIC					
NOPLAT margin (%)	7.5	7.7	7.2	8.3	8.8
IC turnover (x)	2.5	2.2	2.1	2.0	2.0
RoIC (%)	18.7	16.9	14.9	16.5	17.6
Operating metrics					
Core NWC days	27.9	38.0	46.3	49.9	50.5
Total NWC days	144.4	150.6	166.9	172.9	169.9
Fixed asset turnover	8.6	7.8	7.7	7.5	7.4
Opex-to-revenue (%)	16.5	14.9	14.9	15.0	15.4

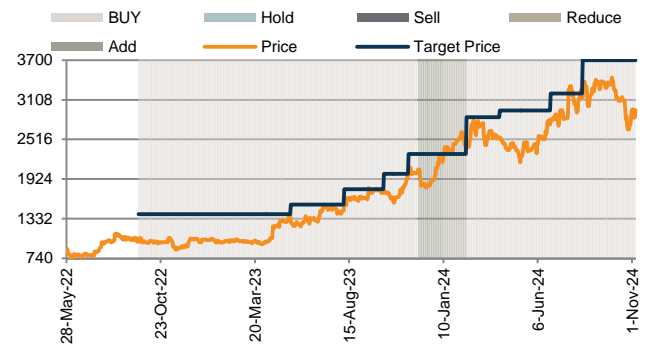
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
03-Oct-24	3,294	3,700	Buy	Devanshu Bansal
15-Aug-24	3,139	3,700	Buy	Devanshu Bansal
23-Jul-24	2,897	3,200	Buy	Devanshu Bansal
07-Jul-24	2,813	3,200	Buy	Devanshu Bansal
26-Jun-24	2,776	3,200	Buy	Devanshu Bansal
14-May-24	2,411	2,950	Buy	Devanshu Bansal
07-Apr-24	2,542	2,950	Buy	Devanshu Bansal
11-Mar-24	2,752	2,850	Buy	Devanshu Bansal
15-Feb-24	2,399	2,850	Buy	Devanshu Bansal
10-Jan-24	2,295	2,300	Reduce	Devanshu Bansal
30-Nov-23	2,019	2,300	Add	Devanshu Bansal
16-Nov-23	2,005	2,300	Buy	Devanshu Bansal
08-Oct-23	1,718	2,000	Buy	Devanshu Bansal
07-Aug-23	1,544	1,770	Buy	Devanshu Bansal
10-Jul-23	1,515	1,540	Buy	Devanshu Bansal
23-Jun-23	1,299	1,540	Buy	Devanshu Bansal
15-May-23	1,275	1,540	Buy	Devanshu Bansal
09-Mar-23	989	1,400	Buy	Devanshu Bansal
04-Feb-23	1,003	1,400	Buy	Devanshu Bansal
09-Jan-23	1,017	1,400	Buy	Devanshu Bansal
25-Nov-22	918	1,400	Buy	Devanshu Bansal
08-Nov-22	1,017	1,400	Buy	Devanshu Bansal
18-Sep-22	988	1,400	Buy	Devanshu Bansal

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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