

Balance sheet allows continued outperformance; maintain BUY

Retail ▶ Result Update ▶ November 16, 2023

TARGET PRICE (Rs): 2,300

Ethos delivered a 23% EBITDA beat, led by 300bps better margins on faster MRP revisions and lower operating costs. Robust outperformance continued vs. other retail formats, with 32% topline growth in Q2/H1 (23% SSG). Demand trends remain encouraging in the luxury space (21% growth in Indian Swiss-watch exports in 9MCY23) and Ethos should be a key beneficiary with a strengthened balance sheet (Rs3.7bn: QIP raise + net cash). Ethos' focus is to grow faster, and it plans to use proceeds towards (1) accelerated network expansion (~100 stores over FY23-27 vs. 25-30 stores earlier), (2) front-loading of inventory purchases for exclusive partnerships and (3) ramp-up of acquired brand – Favre Leuba. We maintain BUY and raise our TP by 15% to Rs2,300, led by a 5-8% increase in estimates on margin beat, 12% increase in TP multiple on strengthened balance sheet and 4% negative impact of equity dilution. A better return generation in Favre Leuba is a potential upside.

Ethos: Financial Snapshot (Consolidated)

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	5,773	7,885	10,574	14,103	18,237
EBITDA	669	1,144	1,635	2,162	2,796
Adj. PAT	234	603	869	1,038	1,273
Adj. EPS (Rs)	12.3	25.8	35.5	42.4	52.0
EBITDA margin (%)	11.6	14.5	15.5	15.3	15.3
EBITDA growth (%)	68.5	71.0	42.9	32.2	29.4
Adj. EPS growth (%)	406.1	110.7	37.4	19.5	22.6
RoE (%)	12.1	14.0	11.4	11.0	12.0
RoIC (%)	12.7	18.7	17.0	16.0	16.2
P/E (x)	163.6	77.6	56.5	47.3	38.6
EV/EBITDA (x)	57.5	39.0	28.3	21.8	17.1
P/B (x)	16.5	7.4	5.5	4.9	4.4
FCFF yield (%)	(0.3)	(1.3)	(1.4)	(1.0)	0.2

Source: Company, Emkay Research

Robust growth amid strong demand; outperforms other retail formats: Q2 revenue grew ~32% to Rs2.4bn, led by 23% SSG and network expansion. In our view, ASP grew more than 30% in Q2, while volume was flat as the company shifted its focus towards higher-end watches. The share of luxury watches (>Rs300,000) improved 450bps to 69% in H1. CPO business grew 34% YoY in H1 and contributed Rs0.32bn to revenue. Gross margin at 31.2% declined 100bps, led by tail impact of the mismatch between MRP revisions by brands and INR depreciation. Ethos expects the pricing mismatch to be corrected completely by Q4. Despite the decline in gross margin, strong operating leverage led to EBITDA margin (Pre-Ind AS) gaining 140bps to reach 11.9%. Delay in opening of malls led to store count remaining flat at 60; expect H2 to mitigate Q2 shortfall with higher additions. Ethos has guided to reach 140-150 store count in the next four years. Ethos raised Rs1.8bn via QIP route in Q3, in addition to cash reserves of Rs1.8bn at H1 end; funds raised will be used for new store openings (WC/capex), front-loading of inventory for exclusive partnerships and ramp-up of Favre-Leuba.

Earnings call KTAs: 1) Ethos entered into four exclusive partnerships in Q2 with Ulysse Nardin, Gerald Charles, Chrono Swiss and Nivada Grenchen. Ulysse Nardin is specifically important as it is one of the Top-50 luxury brands globally and has been, hitherto, operating in India with other retailers. 2) The first Rimova (luggage) store opened in Q3, with the brand nearing USD1bn sales globally. A positive response should help in gaining more store rights. 3) A sharp rise in ASP from Rs84K to Rs187K over FY20-H1FY24 is on account of strategically getting out of lower price points. Ethos is mostly done with this correction and expects a gradual rise in ASP from hereon. 4) Volume was largely flat, led by growth in higher price-point watches and a significant decline in lower price-point watches. 5) Ethos is witnessing better-than-expected traction in Tier 2/3 cities, with awareness increasing for fine watches; Ethos aims to fast-track its plan to expand its reach to Tier 2/3 cities with the help of raised funds. 6) New stores are seeing faster breakeven with most stores opened in the last 12 months being profitable. A few stores have reached breakeven as early as three months. 7) It claimed to have a ~21% market share in the luxury watch segment and plans to grow the same with exclusive partnerships, content-led marketing and pan-India omnipresence. 8) It informed that price correction in the pre-owned market is limited to specific brands and watches; however, prices for such watches still remain higher than new watch prices. 9) Regarding Favre Luba, it will take two quarters to come out with a market strategy and projections relating to further investments will be clear by the start of FY25.

Target Price – 12M	Dec-24
Change in TP (%)	15.0
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	14.7
CMP (16-Nov-23) (Rs)	2,005.2

Stock Data	Ticker
52-week High (Rs)	2,146
52-week Low (Rs)	860
Shares outstanding (mn)	24.5
Market-cap (Rs bn)	49
Market-cap (USD mn)	590
Net-debt, FY24E (Rs mn)	-2,855
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	88.7
ADTV-3M (USD mn)	1.1
Free float (%)	36.0
Nifty-50	19,765
INR/USD	83.2
Shareholding, Sep-23	
Promoters (%)	63.8
FPIs/MFs (%)	6.7/9.7

Price Performance

(%)	1M	3M	12M
Absolute	17.9	24.3	123.1
Rel. to Nifty	17.7	22.4	107.8

1-Year share price trend (Rs)



Devanshu Bansal

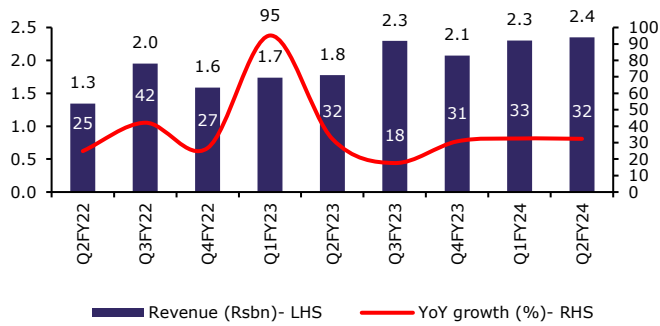
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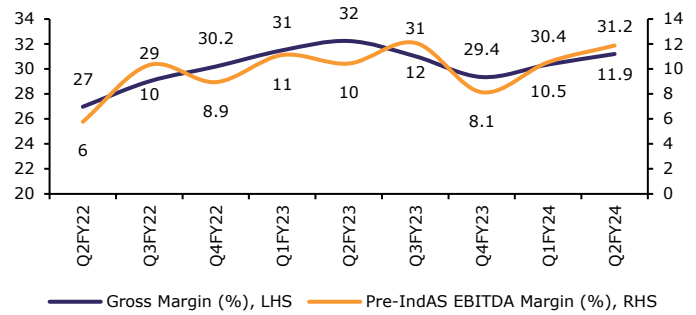
Story in Charts

Exhibit 1: Topline grew 32%, led by 23% SSG; CPO business also grew 34% in Q2



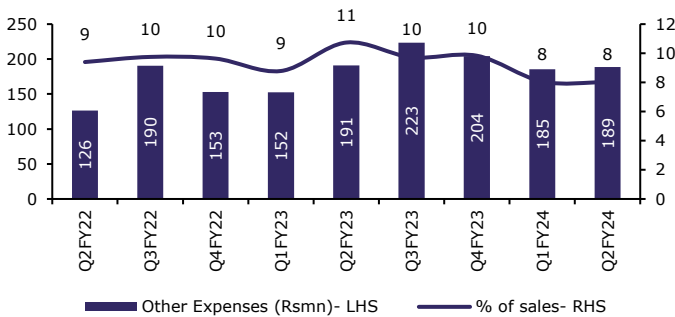
Source: Company, Emkay Research

Exhibit 2: Gross margin declined 100bps on pricing mismatch; EBITDA margin was up 120bps, led by lower operating cost



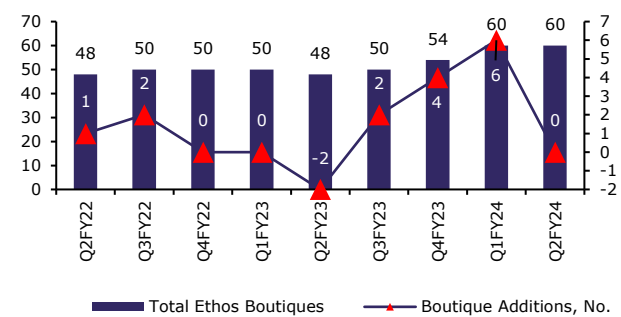
Source: Company, Emkay Research

Exhibit 3: Cost-control measures helped to keep other expenses under control in Q2



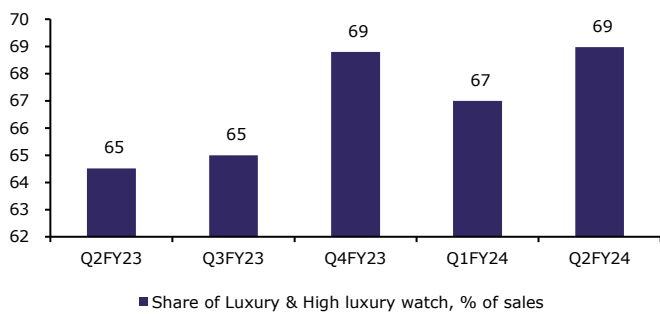
Source: Company, Emkay Research

Exhibit 4: Store additions were flat in Q2; six additions in H1



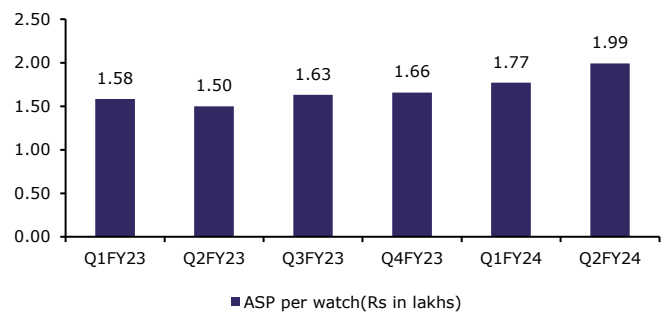
Source: Company, Emkay Research

Exhibit 5: Share of luxury and high luxury watch sales continues to remain elevated at 69%



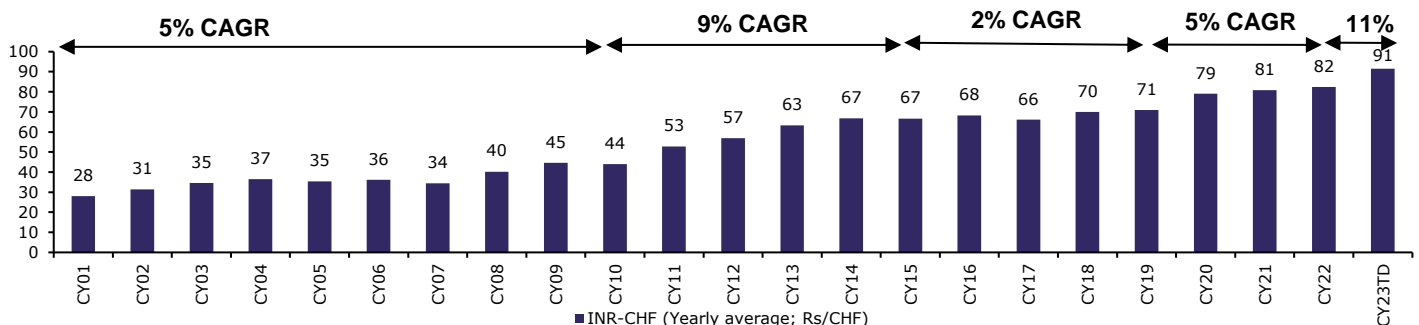
Source: Emkay Research (Ballpark numbers based on analyst calculation)

Exhibit 6: ASP continued to increase sequentially led by both mix improvements and price hikes



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

Exhibit 7: INR has significantly depreciated vs. the CHF in CY23TD (~11% vs. long-term average of ~5%); timing mismatch between INR depreciation and price revisions by brands should impact margins for Ethos in FY24



Source: Company, Emkay Research

Exhibit 8: Swiss exports to India see growth pick up in Aug-Sep-23; remains well ahead of pre-pandemic sales

Swiss Watch Exports to India (CHF mn)	CY18	CY19	CY20	CY21	CY22	CY22TD	CY23TD	YoY (%)
January	12.6	10.9	11.4	10.3	10.7	10.7	13.9	29.9
February	14.5	14.2	12.0	12.4	12.6	12.6	15.7	24.6
March	12.1	14.5	3.4	14.3	13.7	13.7	18.4	34.3
April	11.7	11.3	0.0	10.9	14.0	14.0	14.7	5.0
May	12.7	11.3	0.3	6.8	15.0	15.0	16.1	7.3
June	11.4	10.0	4.9	5.0	15.2	15.2	19.7	29.6
July	11.5	11.2	7.4	11.9	17.6	17.4	17.7	1.7
August	11.1	10.3	7.9	13.9	14.5	14.2	17.5	23.2
September	15.3	13.8	10.5	16.0	18.4	17.8	20.5	15.2
October	13.4	12.4	12.4	21.6	23.0			
November	12.8	14.4	15.7	17.3	16.7			
December	13.6	11.7	12.9	19.0	17.3			
Total	152.7	146.1	98.8	159.3	188.6	81.2	98.5	21.3

Source: Federation of the Swiss Watch Industry, Emkay Research

Exhibit 9: Actual vs. Estimates (Q2FY24)

(Rs mn)	Actual	Emkay estimate	Variation	Comments
Net Sales	2,352	2,360	-0.3%	Topline was in line with estimates.
EBITDA	373	304	22.6%	Lower pricing mismatch impact and employee cost led to higher margin.
EBITDA Margin	15.8%	12.9%	297	
PAT	186	138	34.8%	EBITDA beat led to PAT beat.

Source: Company, Emkay Research

Exhibit 10: Summary of quarterly results

Y/E, March (Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)	FY23TD	FY24TD	Gr (%)
Revenue	1,777	2,297	2,076	2,300	2,352	32.4	2.3	3,513	4,652	32.4
Expenditure	1,517	1,938	1,821	1,961	1,979	30.5	0.9	2,982	3,940	32.1
Consumption of RM	1,204	1,584	1,466	1,602	1,618	34.4	1.0	2,393	3,220	34.6
As a % of sales	68%	69%	71%	70%	69%			68%	69%	
Employee Cost	122	131	150	174	173	41.7	-0.7	246	346	40.9
As a % of sales	7%	6%	7%	8%	7%			7%	7%	
Other expenditure	191	223	204	185	189	-1.1	1.8	343	374	9.0
As a % of sales	13%	12%	11%	9%	10%			10%	8%	
EBITDA	260	359	255	339	373	43.1	9.9	531	712	34.2
Depreciation	82	88	95	107	127	54.1	18.4	164	234	43.1
EBIT	178	271	160	232	246	38.0	6.0	367	478	30.2
Other Income	37	37	50	47	43	16.7	-8.9	59	90	52.0
Interest	33	31	35	38	41	24.0	9.1	76	79	4.8
PBT	181	276	175	241	247	36.3	2.6	350	488	39.3
Total Tax	46	70	45	61	63	37.4	3.2	89	125	40.6
APAT	135	206	131	179	184	35.9	2.4	261	363	38.9
Share of JV profit	0	-1	-2	-2	-2	407.8	4.6	-2	-4	
Reported PAT	136	207	133	182	186	37.1	2.4	264	367	39.4
Reported EPS (Rs)	6.6	9.5	5.9	7.8	8.0	20.8	2.4	13.2	15.7	19.7
(%)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	(bps)	(bps)	FY23TD	FY24TD	(bps)
Gross Margin	32.2	31.0	29.4	30.4	31.2	-100	80	31.9	30.8	-110
EBITDA	14.7	15.6	12.3	14.7	15.8	120	110	15.1	15.3	20
EBIT	10.0	11.8	7.7	10.1	10.4	40	40	10.4	10.3	-20
PBT	10.2	12.0	8.5	10.5	10.5	30	0	10.0	10.5	50
PAT	7.6	9.0	6.3	7.8	7.8	20	0	7.4	7.8	40
Effective Tax rate	25.4	25.5	25.5	25.5	25.6	20	10	25.3	25.6	20.0

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)*		
					FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Titan Company	3,336	2,962	Hold	3,670	40.4	50.8	63.4	82.6	65.7	52.6	53.9	43.1	35.3
Page Industries	37,442	418	Hold	39,000	535.7	678.9	818.3	69.9	55.1	45.8	44.6	36.1	30.3
Jubilant FoodWorks	527	348	Sell	380	4.8	7.0	9.0	109.0	75.6	58.9	29.4	23.6	19.9
Devyani International	182	220	Sell	165	1.2	2.1	3.1	154.2	87.2	59.2	30.8	24.1	18.6
ABFRL	215	204	Hold	220	-5.1	-3.6	-2.2	-42.4	-59.3	-98.8	14.8	9.8	7.7
Westlife Development	848	132	Buy	1,040	6.6	10.1	15.1	129.0	83.9	56.1	31.7	24.9	19.6
Sapphire Foods	1,367	87	Buy	1,550	15.3	25.3	35.2	89.2	54.1	38.8	17.1	13.1	10.3
Varun Beverages	1,045	1,357	Buy	1,150	15.8	20.0	25.8	66.2	52.2	40.5	38.6	31.0	25.7
Go Fashion	1,214	66	Buy	1,440	17.2	24.5	32.5	70.6	49.6	37.3	25.7	19.2	14.9
Ethos	2,005	49	Buy	2,300	35.5	42.4	52.0	56.5	47.3	38.6	28.5	21.5	16.6
Senco Gold	688	53	Buy	800	21.6	27.6	35.0	31.8	24.9	19.7	16.4	13.1	10.6

Source: Company, Emkay Research, *Post-IndAS116 EBITDA

Exhibit 12: Changes in estimates

(Rs mn)	FY24E			FY25E			FY26E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenue	10,564	10,574	0.1	14,063	14,103	0.3	17,368	18,237	5.0
EBITDA	1,047	1,207	15.2	1,524	1,592	4.5	1,908	2,061	8.1
EBITDA Margin (%)*	9.9	11.4	150 bps	10.8	11.3	50 bps	11.0	11.3	30 bps
Net profit	700	869	24.1	1,000	1,038	3.9	1,250	1,273	1.9
EPS (Rs)	30.0	35.5	18.4	42.8	42.4	-0.9	53.5	52.0	-2.8

Source: Company, Emkay Research, *Pre-IndAS116 EBITDA

Ethos: Consolidated Financials and Valuations

Profit and Loss					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	5,773	7,885	10,574	14,103	18,237
Revenue growth (%)	49.3	36.6	34.1	33.4	29.3
EBITDA	669	1,144	1,635	2,162	2,796
EBITDA growth (%)	68.5	71.0	42.9	32.2	29.4
Depreciation & Amortization	315	346	519	709	917
EBIT	354	798	1,116	1,453	1,879
EBIT growth (%)	391.9	125.4	39.9	30.2	29.4
Other operating income	0	0	0	0	0
Other income	128	146	210	160	110
Financial expense	167	142	172	225	287
PBT	315	802	1,154	1,388	1,702
Extraordinary items	0	0	0	0	0
Taxes	81	204	293	350	429
Minority interest	0	0	0	0	0
Income from JV/Associates	0	5	8	0	0
Reported PAT	234	603	869	1,038	1,273
PAT growth (%)	430.2	157.8	44.1	19.5	22.6
Adjusted PAT	234	603	869	1,038	1,273
Diluted EPS (Rs)	12.3	25.8	35.5	42.4	52.0
Diluted EPS growth (%)	406.1	110.7	37.4	19.5	22.6
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 (%)	11.6	14.5	15.5	15.3	15.3
EBIT margin (%)	6.1	10.1	10.6	10.3	10.3
Effective tax rate (%)	25.8	25.4	25.4	25.2	25.2
NOPLAT (pre-IndAS)	263	595	833	1,087	1,406
Shares outstanding (mn)	19.1	23.3	24.5	24.5	24.5

Source: Company, Emkay Research

Cash Flows					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	315	802	1,154	1,388	1,702
Others (non-cash items)	315	346	519	709	917
Taxes paid	(81)	(204)	(293)	(350)	(429)
Change in NWC	(492)	(985)	(1,343)	(1,673)	(1,674)
Operating cash flow	96	(39)	7	139	694
Capital expenditure	(227)	(558)	(650)	(614)	(600)
Acquisition of business	(8)	(5)	(229)	(50)	(50)
Interest & dividend income	128	146	210	160	110
Investing cash flow	(187)	(547)	(669)	(504)	(540)
Equity raised/(repaid)	518	3,397	1,750	0	0
Debt raised/(repaid)	74	(514)	(80)	0	0
Payment of lease liabilities	(227)	(318)	(428)	(570)	(735)
Interest paid	(65)	(26)	(11)	(10)	(10)
Dividend paid (incl tax)	0	0	0	0	0
Others	(17)	(64)	0	0	0
Financing cash flow	284	2,474	1,231	(580)	(745)
Net chg in Cash	193	1,888	569	(945)	(591)
OCF	96	(39)	7	139	694
Adj. OCF (w/o NWC chg.)	588	945	1,350	1,812	2,367
FCFF	(131)	(597)	(643)	(475)	94
FCFE	(170)	(593)	(605)	(540)	(83)
OCF/EBITDA (%)	14.4	(3.4)	0.4	6.4	24.8
FCFE/PAT (%)	(72.5)	(98.4)	(69.7)	(52.0)	(6.5)
FCFF/NOPLAT (%)	(49.8)	(100.4)	(77.2)	(43.7)	6.7

Source: Company, Emkay Research

Balance Sheet					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	191	233	245	245	245
Reserves & Surplus	2,126	6,081	8,689	9,727	11,001
Net worth	2,317	6,315	8,934	9,972	11,245
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(91)	(86)	0	0	0
Total debt	594	80	0	0	0
Total liabilities & equity	2,820	6,309	8,934	9,972	11,245
Net tangible fixed assets	373	138	522	914	1,227
Net intangible assets	7	407	402	392	376
Net ROU assets	(103)	(93)	(184)	(305)	(461)
Capital WIP	0	40	0	0	0
Goodwill	0	0	0	0	0
Investments [JV/Associates]	16	21	250	300	350
Cash & equivalents	398	2,286	2,855	1,910	1,319
Current assets (ex-cash)	2,835	4,085	5,562	7,573	9,643
Current Liab. & Prov.	835	966	1,014	1,352	1,749
NWC (ex-cash)	2,000	3,119	4,548	6,221	7,894
Total assets	2,820	6,309	8,934	9,972	11,245
Net debt	196	(2,206)	(2,855)	(1,910)	(1,319)
Capital employed	2,820	6,309	8,934	9,972	11,245
Invested capital	2,406	3,962	5,829	7,762	9,576
BVPS (Rs)	121.4	270.5	364.9	407.4	459.4
Net Debt/Equity (x)	0.1	(0.3)	(0.3)	(0.2)	(0.1)
Net Debt/EBITDA (x)	0.3	(1.9)	(1.7)	(0.9)	(0.5)
Interest coverage (x)	0.3	0.2	0.1	0.1	0.1
RoCE (%)	20.0	20.7	17.4	17.1	18.8

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	163.6	77.6	56.5	47.3	38.6
P/CE(x)	69.7	49.3	35.4	28.1	22.4
P/B (x)	16.5	7.4	5.5	4.9	4.4
EV/Sales (x)	6.7	5.7	4.4	3.3	2.6
EV/EBITDA (x)	57.5	39.0	28.3	21.8	17.1
EV/EBIT(x)	108.6	55.9	41.4	32.5	25.4
EV/IC (x)	16.0	11.3	7.9	6.1	5.0
FCFF yield (%)	(0.3)	(1.3)	(1.4)	(1.0)	0.2
FCFE yield (%)	(0.4)	(1.3)	(1.2)	(1.1)	(0.2)
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
DuPont-RoE split					
Net profit margin (%)	4.1	7.6	8.2	7.4	7.0
Total asset turnover (x)	2.4	1.7	1.4	1.5	1.7
Assets/Equity (x)	1.2	1.1	1.0	1.0	1.0
RoE (%)	12.1	14.0	11.4	11.0	12.0
DuPont-RoIC					
NOPLAT margin (%)	4.5	7.5	7.9	7.7	7.7
IC turnover (x)	2.8	2.5	2.2	2.1	2.1
RoIC (%)	12.7	18.7	17.0	16.0	16.2
Operating metrics					
Core NWC days	24.3	27.9	38.2	44.0	44.0
Total NWC days	126.4	144.4	157.0	161.0	158.0
Fixed asset turnover	10.2	8.6	7.3	7.1	7.5
Opex-to-revenue (%)	17.2	16.5	15.1	15.3	15.4

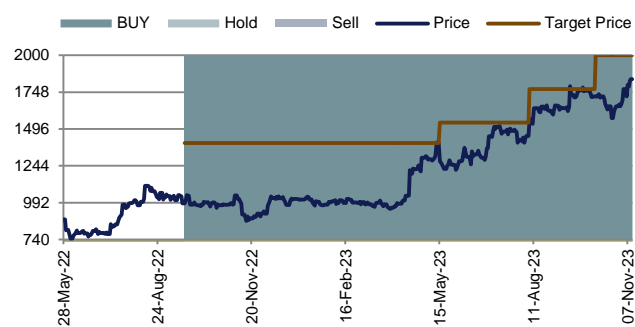
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
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: Bloomberg, Company, Emkay Research

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