

Ethos delivered 4% better EBITDA led by strategic curtailing of marketing spends. Despite operating challenges across the entire retail spectrum, Ethos has outperformed with strong 19% revenue growth (12.3% SSG) in Q1 vs single-digit growth for most retailers. With the return of normalcy, Ethos' outperformance is likely going to further accelerate with 28% growth in Jul-24, along with better gross margin. Ethos added 4 stores in FY25TD with faster expansion in coming quarters; it has retained its annual outlook to add ~20 stores. The company expects continued momentum over the medium term, supported by TAM expansion/own brand, ramp up of the Lifestyle vertical, and faster growth in pre-owned watches. Ethos also has tangible margin/WC tailwinds via gradual reduction in customs duty, higher exclusive mix, lower discounts, and better credit terms from brands. Our estimates remain largely unchanged, but we are increasing TP multiple by 5% to 37x Sep-26E EBITDA. We retain BUY with revised Sep-25E TP of Rs3,700/share (vs Jun-25E earlier).

Ethos: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	7,885	9,990	12,489	16,033	20,297
EBITDA	1,144	1,498	2,020	2,741	3,615
Adj. PAT	603	814	1,062	1,379	1,847
Adj. EPS (Rs)	25.8	33.2	43.4	56.3	75.5
EBITDA margin (%)	14.5	15.0	16.2	17.1	17.8
EBITDA growth (%)	71.0	30.9	34.8	35.7	31.9
Adj. EPS growth (%)	110.7	28.7	30.4	29.9	34.0
RoE (%)	14.0	10.7	11.3	13.0	15.1
RoIC (%)	18.7	16.4	18.1	20.2	22.2
P/E (x)	121.6	94.4	72.4	55.7	41.6
EV/EBITDA (x)	62.1	49.0	36.4	26.9	20.4
P/B (x)	11.6	8.7	7.8	6.8	5.9
FCFF yield (%)	(0.8)	(0.1)	0.4	0.5	1.2

Source: Company, Emkay Research

Strong performance despite operating challenges; Q2TD sees robust pickup: Q1 revenue grew by a healthy 19% to Rs2.7bn led by 12.3% SSG, with the balance growth coming from network expansion. The ASP grew ~25% in Q1 implying 5-6% de-growth in overall volumes which is mainly due to reduced focus on <Rs50k watch segment and elections-led restriction on carrying cash; both together impacted volumes for <Rs250K. However, volume growth for non-cash watch segment (>Rs250k) was healthy at 9.5%. Exclusive brands mix remained flat at ~30% in Q1. Exclusive brand count reached ~55 with 2 new added in Q1 – *ID Geneve* and *Singer Reimagined*. The CPO business clocked ~Rs0.2bn for Q1, registering a strong 31% growth. Ethos is seeing good traction in new Lifestyle business with Rimova witnessing ~Rs20mn monthly run-rate. Gross margin declined by 80bps to 29.6% in Q1, led by higher discounts/promotions amid the challenging operating environment. Despite dip in GM, the lower employee costs (-60bps) and curtailed marketing spends led to a ~110bps higher EBITDA margin at 15.8%. Pre-IndAS EBITDA improved by 60bps to 11.1% in Q1 vs 10.5% last year. The delay in mall constructions led to slower store add of 3 in Q1 (66 total stores currently), but the outlook remains intact with 20-25 additions in FY25.

Strong commentary keeps us optimistic: i) Q1 realizations were up ~25% with <Rs250k watch segment impacted due to implementation of model code of conduct amid general elections, strong heatwaves, inclement weather-led logistics issue in Switzerland, and implementation of a new ERP system (3 days impact). However, Ethos indicated strong recovery in July with ~28% growth and better gross margin. ii) Store additions are expected to accelerate between Oct-24 and Mar-25 as the delay is largely due to real estate related regulatory challenges. iii) Ethos remained confident of partnering with ultra-luxury watch brands which are yet to enter India and will aid in its TAM expansion. In addition, the initial success in Rimova is strengthening Ethos' confidence for more tie-ups in the Lifestyle vertical. It is already in initial discussion stage with such brands and expects to sign a few of them within 12-18 months. i) Ethos has a clear roadmap for 8-10 *Rimova* stores and has also finalized the 1st *Messika* store in New Delhi. v) Gross margin dip in Q1 was largely due to higher discount offers/price matching; however, the discounting has likely reduced with Ethos indicating a strong gross margin performance in Jul-24. vi) *Favre Leuba*'s first collection will be launched at Geneva Watch Days (Aug-24 end). vii) Ethos expects to retain the entire margin benefit from duty reduction for ~90% of exclusive brands, and share margin benefits with the remaining 10% of exclusive brands. Ethos is also negotiating with non-exclusive brands to share the waiver benefit. viii) While the pre-owned business has the potential to grow even faster vs current growth trends of ~30%, the growth is being restricted due to shortage of skilled watchmakers. With the Delhi center running at full capacity, Ethos is opening a second service center in Bengaluru to cater to the same. It has also tied up with a Swiss training organization to improve availability and training of watchmakers.

Target Price – 12M	Sep-25
Change in TP (%)	15.6
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	17.9
CMP (14-Aug-24) (Rs)	3,139.3

Stock Data	Ticker
52-week High (Rs)	3,380
52-week Low (Rs)	1,542
Shares outstanding (mn)	24.5
Market-cap (Rs bn)	77
Market-cap (USD mn)	915
Net-debt, FY25E (Rs mn)	-3,309
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	133.5
ADTV-3M (USD mn)	1.6
Free float (%)	36.0
Nifty-50	24,144
INR/USD	83.9
Shareholding, Jun-24	
Promoters (%)	54.7
FPIs/MFs (%)	11.2/14.1

Price Performance			
(%)	1M	3M	12M
Absolute	6.3	30.2	91.8
Rel. to Nifty	7.9	19.8	54.4

1-Year share price trend (Rs)



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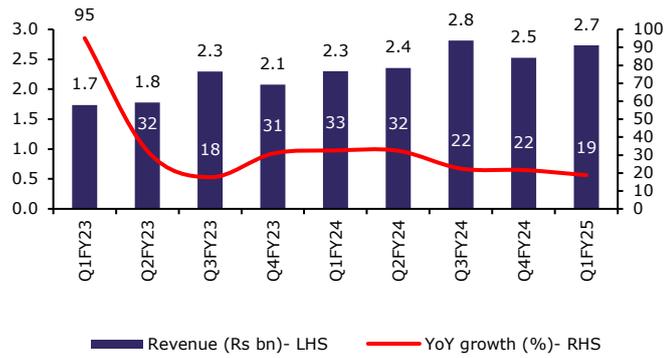
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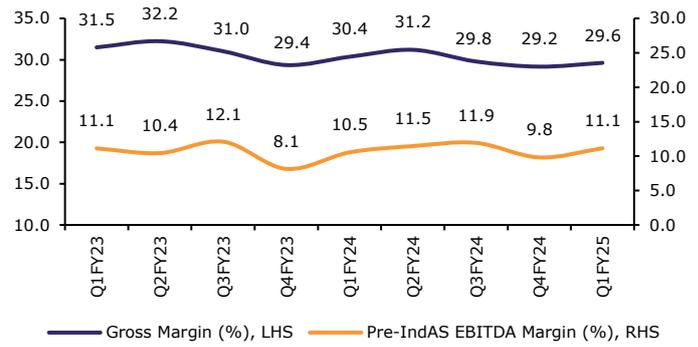
Story in Charts

Exhibit 1: Topline grew 19%, led by ~12% SSG with the remaining helped by growth in the average store count



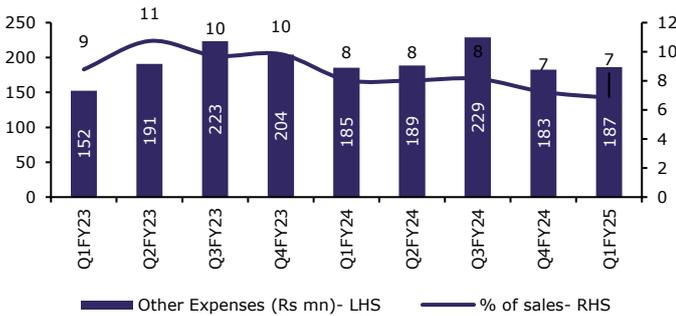
Source: Company, Emkay Research

Exhibit 2: Gross margin decline was due to higher promotions; still EBITDA margin was up on low employee cost/curtailed marketing



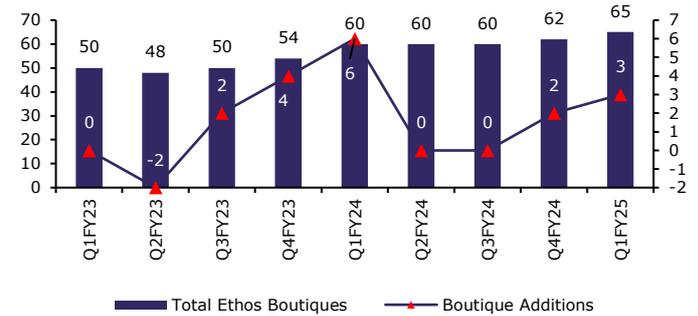
Source: Company, Emkay Research

Exhibit 3: Cost-control measures helped keep other expenses under control in Q1



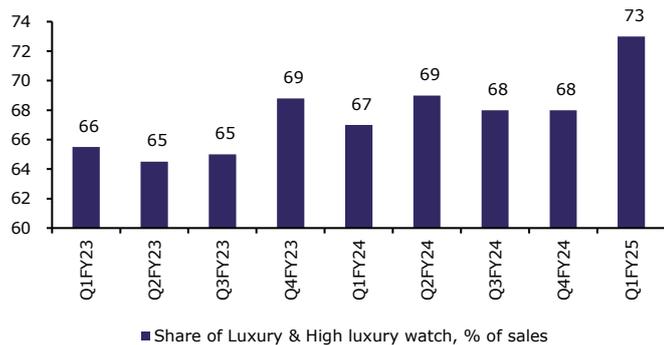
Source: Company, Emkay Research

Exhibit 4: Ethos added 3 stores in Q1; guidance to add 20-25 store was intact with pace expected to pickup from Q2



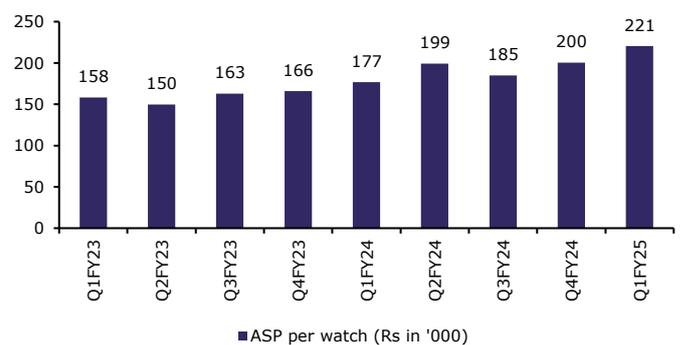
Source: Company, Emkay Research

Exhibit 5: Share of luxury and high-luxury watch sales increased to 73%, helped by operating challenges in <250K watch segment



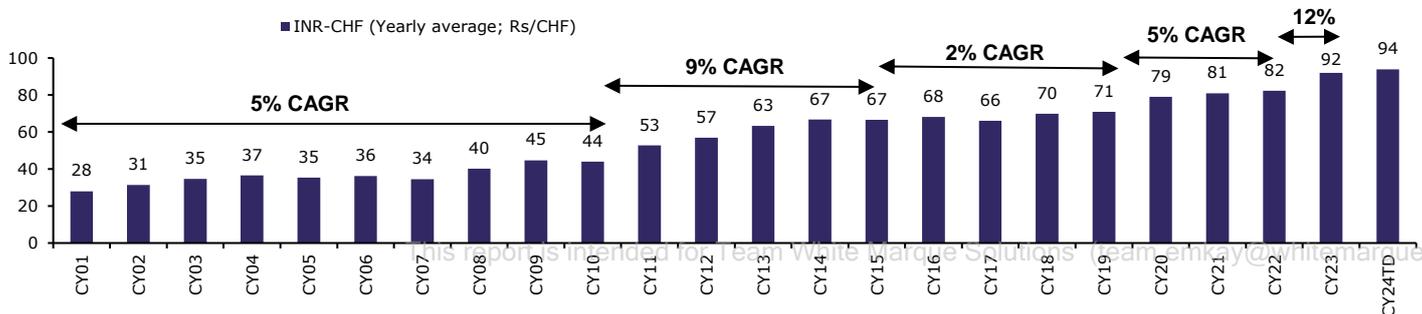
Source: Emkay Research (Ballpark numbers based on analyst's calculation)

Exhibit 6: ASP increased ~25%, led by both, mix improvements toward high-end watches and price hikes



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

Exhibit 7: The CHF-INR CY24TD trend has been stable vs the sharp 12% depreciation in CY23; gross margin is likely to remain stable with brand MRP now largely in line with the current CHF-INR trend



Source: Company, Emkay Research

Exhibit 8: Swiss exports to India have seen strong growth of ~15% in CY24TD in CHF terms; Ethos has outperformed with ~20% growth 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			
August	11.1	10.3	7.9	12.9	14.2	17.5			
September	15.3	13.8	10.5	15.0	17.8	20.5			
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	98.5	112.8	14.5

Source: Federation of the Swiss Watch Industry, Emkay Research

Exhibit 9: Actual vs Estimates (Q1FY25)

(Rs mn)	Actual	Emkay estimate	Variation	Comments
Net Sales	2,732	2,761	-1.0%	Topline was in line with our estimates
EBITDA	433	416	4.1%	EBITDA margin was higher led by curtailed marketing spends
EBITDA margin	15.8%	15.1%	78	
PAT	228	230	-0.8%	PAT came in line with estimate due to higher depreciation

Source: Company, Emkay Research

This report is intended for Team White Marque Solutions (team.emkay@whitemarquesolutions)

Exhibit 10: Summary of quarterly results

Y/E, Mar (Rs mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)	FY23	FY24	Gr (%)
Revenue	2,300	2,352	2,812	2,525	2,732	18.8	8.2	7,885	9,990	26.7
Expenditure	1,961	1,979	2,367	2,165	2,300	17.3	6.2	6,741	8,473	25.7
Consumption of RM	1,602	1,618	1,975	1,789	1,923	20.1	7.5	5,444	6,984	28.3
As a % of sales	70%	69%	70%	71%	70%			69%	70%	
Employee Cost	174	173	163	194	190	9.4	-2.0	527	704	33.6
As a % of sales	8%	7%	6%	8%	7%			7%	7%	
Other expenditure	185	189	229	183	187	0.6	2.1	771	786	1.9
As a % of sales	9%	10%	10%	8%	8%			10%	8%	
EBITDA	339	373	445	360	433	27.6	20.3	1,144	1,517	32.6
Depreciation	107	127	125	127	143	33.5	12.5	346	487	40.6
EBIT	232	246	320	233	290	24.9	24.5	798	1,030	29.2
Other Income	47	43	62	84	64	36.5	-24.1	146	236	62.2
Interest	38	41	40	40	45	19.3	12.1	142	160	13.1
PBT	241	247	342	276	308	28.0	11.5	802	1,106	38.0
Total Tax	61	63	88	67	79	28.2	17.3	204	280	37.5
APAT	179	184	254	209	230	27.9	9.7	598	826	38.2
Share of JV profit	-2	-2	-1	-1	2			-5	-7	
Reported PAT	182	186	255	210	228	25.6	8.4	603	833	38.1
Reported EPS (Rs)	7.8	8.0	10.9	9.0	9.8	25.6	8.4	28.5	35.7	25.0
(%)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	(bps)	(bps)	FY23	FY24	(bps)
Gross Margin	30.4	31.2	29.8	29.2	29.6	-70	50	31.0	30.1	-90
EBITDAM	14.7	15.8	15.8	14.2	15.8	110	160	14.5	15.2	70
EBITM	10.1	10.4	11.4	9.2	10.6	50	140	10.1	10.3	20
PBTM	10.5	10.5	12.2	10.9	11.3	80	30	10.2	11.1	90
PATM	7.8	7.8	9.0	8.3	8.4	60	10	7.6	8.3	70
Effective Tax rate	25.5	25.6	25.8	24.3	25.5	0	130	25.4	25.3	-10.0

Source: Company, Emkay Research

Exhibit 11: Peer Comparison

Companies	Price (Rs)	Mcap (Rs bn)	Reco	Target Price (Rs/sh)	EPS (Rs)			P/E (x)			EV/EBITDA (x)*		
					FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Titan Company	3,402	3,020	Buy	4,000	38.4	55.9	73.4	88.7	60.9	46.3	50.4	40.6	32.5
Page Industries	40,700	454	Reduce	37,300	593.0	713.7	845.7	68.6	57.0	48.1	44.7	37.7	32.1
Jubilant FoodWorks	637	421	Add	600	4.5	7.5	10.0	142.3	84.5	63.7	26.0	21.7	18.8
Devyani International	170	206	Reduce	175	0.9	1.4	2.2	195.2	123.0	78.7	22.5	18.2	14.9
ABFRL	311	316	Sell	260	-3.5	-0.8	0.1	NA	NA	NA	18.1	13.4	11.0
Westlife Foodworld	800	125	Reduce	875	2.0	8.1	11.6	402.2	99.1	69.0	34.7	23.8	19.6
Sapphire Foods	1,536	98	Add	1,700	9.3	20.4	32.1	166.0	75.3	47.8	18.0	13.6	10.7
Go Fashion	1,107	60	Buy	1,350	20.1	27.1	33.3	55.1	40.8	33.2	19.9	15.6	12.8
Ethos	3,139	77	Buy	3,700	43.4	56.3	75.5	72.4	55.7	41.6	36.4	26.8	20.3
Senco Gold	1,099	85	Buy	1,400	29.2	40.0	49.0	37.7	27.5	22.4	17.3	15.0	12.5
Varun Beverages	1,462	1,900	Add	1,650	19.2	25.3	32.0	76.3	57.8	45.7	42.2	34.9	29.4
Aditya Vision	4,518	58	Buy	5,800	96.2	132.7	180.6	47.0	34.0	25.0	25.6	19.5	15.0

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

This report is intended for Team White Marque Solutions (team.emkay@whitemarqueresolutions)

Exhibit 12: Changes in estimates

(Rs mn)	FY25E			FY26E			FY27E		
	Old	New	% change	Old	New	Change (%)	Old	New	Change (%)
Revenue	12,248	12,489	2.0	15,988	16,033	0.3	20,246	20,297	0.3
EBITDA*	1,414	1,454	2.8	1,987	2,005	0.9	2,680	2,694	0.5
EBITDA margin (%)	11.5	11.6	10 bps	12.4	12.5	10 bps	13.2	13.3	0 bps
Net profit	1,040	1,062	2.1	1,365	1,379	1.0	1,836	1,847	0.6
EPS (Rs)	42.5	43.4	2.1	55.7	56.3	1.0	75.0	75.5	0.6

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

This report is intended for Team White Marque Solutions (team.emkay@whitemarquesolutions)

Ethos: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	7,885	9,990	12,489	16,033	20,297
Revenue growth (%)	36.6	26.7	25.0	28.4	26.6
EBITDA	1,144	1,498	2,020	2,741	3,615
EBITDA growth (%)	71.0	30.9	34.8	35.7	31.9
Depreciation & Amortization	346	487	632	832	1,040
EBIT	798	1,011	1,388	1,909	2,575
EBIT growth (%)	125.4	26.8	37.3	37.5	34.8
Other operating income	0	0	0	0	0
Other income	146	236	230	180	200
Financial expense	142	160	199	246	305
PBT	802	1,087	1,419	1,843	2,469
Extraordinary items	0	0	0	0	0
Taxes	204	280	358	464	622
Minority interest	0	0	0	0	0
Income from JV/Associates	5	7	0	0	0
Reported PAT	603	814	1,062	1,379	1,847
PAT growth (%)	157.8	35.0	30.4	29.9	34.0
Adjusted PAT	603	814	1,062	1,379	1,847
Diluted EPS (Rs)	25.8	33.2	43.4	56.3	75.5
Diluted EPS growth (%)	110.7	28.7	30.4	29.9	34.0
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	15.0	16.2	17.1	17.8
EBIT margin (%)	10.1	10.1	11.1	11.9	12.7
Effective tax rate (%)	25.4	25.8	25.2	25.2	25.2
NOPLAT (pre-IndAS)	595	751	1,038	1,428	1,926
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	1,087	1,419	1,843	2,469
Others (non-cash items)	346	487	632	832	1,040
Taxes paid	(204)	(280)	(358)	(464)	(622)
Change in NWC	(985)	(1,007)	(850)	(1,349)	(1,538)
Operating cash flow	(39)	237	812	928	1,454
Capital expenditure	(558)	(298)	(485)	(545)	(545)
Acquisition of business	(5)	(219)	(60)	(50)	0
Interest & dividend income	146	236	230	180	200
Investing cash flow	(547)	(281)	(315)	(415)	(345)
Equity raised/(repaid)	3,397	1,750	0	0	0
Debt raised/(repaid)	(514)	(13)	0	0	0
Payment of lease liabilities	(318)	(423)	(566)	(736)	(920)
Interest paid	(26)	(9)	(10)	(10)	(10)
Dividend paid (incl tax)	0	0	0	0	0
Others	(64)	(93)	0	0	0
Financing cash flow	2,474	1,212	(576)	(746)	(930)
Net chg in Cash	1,888	1,168	(79)	(234)	179
OCF	(39)	237	812	928	1,454
Adj. OCF (w/o NWC chg.)	945	1,244	1,662	2,277	2,992
FCFF	(597)	(61)	327	383	909
FCFE	(593)	15	358	317	804
OCF/EBITDA (%)	(3.4)	15.8	40.2	33.8	40.2
FCFE/PAT (%)	(98.4)	1.9	33.8	23.0	43.5
FCFF/NOPLAT (%)	(100.4)	(8.1)	31.5	26.8	47.2

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	9,656	11,035	12,882
Net worth	6,315	8,840	9,901	11,280	13,127
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(86)	0	0	0	0
Total debt	80	67	67	67	67
Total liabilities & equity	6,309	8,907	9,968	11,347	13,194
Net tangible fixed assets	138	305	629	964	1,250
Net intangible assets	407	398	396	390	378
Net ROU assets	(93)	(129)	(221)	(336)	(480)
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	3,376	3,142	3,321
Current assets (ex-cash)	4,085	5,172	6,261	7,951	9,898
Current Liab. & Prov.	966	960	1,200	1,540	1,950
NWC (ex-cash)	3,119	4,212	5,062	6,411	7,949
Total assets	6,309	8,907	9,968	11,347	13,194
Net debt	(2,206)	(3,388)	(3,309)	(3,075)	(3,254)
Capital employed	6,309	8,907	9,968	11,347	13,194
Invested capital	3,962	5,212	6,293	7,855	9,523
BVPS (Rs)	270.5	361.1	404.5	460.8	536.2
Net Debt/Equity (x)	(0.3)	(0.4)	(0.3)	(0.3)	(0.2)
Net Debt/EBITDA (x)	(1.9)	(2.3)	(1.6)	(1.1)	(0.9)
Interest coverage (x)	0.2	0.1	0.1	0.1	0.1
RoCE (%)	20.7	16.4	17.1	19.6	22.6

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	121.6	94.4	72.4	55.7	41.6
P/CE(x)	77.2	59.1	45.4	34.8	26.6
P/B (x)	11.6	8.7	7.8	6.8	5.9
EV/Sales (x)	9.0	7.4	5.9	4.6	3.6
EV/EBITDA (x)	62.1	49.0	36.4	26.9	20.4
EV/EBIT(x)	89.1	72.6	53.0	38.6	28.6
EV/IC (x)	17.9	14.1	11.7	9.4	7.7
FCFF yield (%)	(0.8)	(0.1)	0.4	0.5	1.2
FCFE yield (%)	(0.8)	0.0	0.5	0.4	1.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
DuPont-RoE split					
Net profit margin (%)	7.6	8.1	8.5	8.6	9.1
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	10.7	11.3	13.0	15.1
DuPont-RoIC					
NOPLAT margin (%)	7.5	7.5	8.3	8.9	9.5
IC turnover (x)	2.5	2.2	2.2	2.3	2.3
RoIC (%)	18.7	16.4	18.1	20.2	22.2
Operating metrics					
Core NWC days	27.9	38.0	41.7	39.5	38.6
Total NWC days	144.4	153.9	147.9	145.9	142.9
Fixed asset turnover	8.6	7.7	7.7	7.9	8.3
Opex-to-revenue (%)	16.5	15.1	14.1	14.3	14.7

Source: Company, Emkay Research

This report is intended for Team White Marque Solutions (team.emkay@whitemarqueresolutions.com)

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
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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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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