

Outperformance continues; Best placed to play luxury tailwind; BUY

Retail ▶ Result Update ▶ May 14, 2024

TARGET PRICE (Rs): 2,950

Ethos continued to outperform, with 22%/27% revenue growth in Q4/FY24. Advance investments in Employees (planned store roll-outs/new vertical) and Tech/App led to a ~140bps miss on EBITDA margin which should normalize in coming quarters. Back-ended store openings in FY25 and the general elections should cause some growth moderation in H1, driving a 5-7% cut to our revenue estimate. However, margin tailwind from the expected custom duty waiver and MRP revisions (7-8% price hike) should more than offset the negative leverage and lead to margin gains in FY26E. With the landmark duty agreement, Ethos expects India allocation by luxury brands to materially improve, and targets 10x revenue by FY34 (~25% CAGR). Ethos is also making the right investments in mobile app, AI, new verticals, network expansion, exclusive brands (*Favre Leuba*), and marketing, to gain market share. Despite the weak macros, Ethos has topped most retail formats, and the recent correction (down ~20% over the last 3M) only adds to its attraction; retain BUY and TP of Rs2,950/share.

Ethos: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	7,885	9,990	12,248	15,988	20,246
EBITDA	1,144	1,498	1,925	2,626	3,479
Adj. PAT	603	814	1,040	1,365	1,836
Adj. EPS (Rs)	25.8	33.2	42.5	55.7	75.0
EBITDA margin (%)	14.5	15.0	15.7	16.4	17.2
EBITDA growth (%)	71.0	30.9	28.5	36.4	32.5
Adj. EPS growth (%)	110.7	28.7	27.8	31.3	34.5
RoE (%)	14.0	10.7	11.1	12.9	15.1
RoIC (%)	18.7	16.4	17.6	19.9	21.9
P/E (x)	89.5	69.6	54.4	41.5	30.8
EV/EBITDA (x)	45.3	35.5	27.7	20.4	15.3
P/B (x)	8.6	6.4	5.7	5.0	4.3
FCFF yield (%)	(1.2)	(0.1)	0.6	0.4	1.5

Source: Company, Emkay Research

Strong trends sustain; outperforms other retailers: Q4 revenue grew 21.7% to Rs2.5bn led by 10% SSG, with the balance growth coming in from network expansion. We believe ASP grew 20.8% in Q4, implying flat growth in overall volume. However, volume growth (over Rs100K) for the focused watch segment stood at a strong 19% for full year. Exclusive brands contributed ~29% in FY24 (vs. 27% in FY23). The CPO business clocked ~Rs0.7bn for FY24, and is expected to maintain the strong growth. Gross margin at 29.2% was largely flat in Q4, with MRPs now mostly in line with current CHF-INR prices. Higher bench strength for upcoming stores, senior hires for the Lifestyle vertical (*Rimova/Messika/QLOCKTWO*), and higher technological investments (AI/App) led to an 80bps higher employee cost. Despite the flat gross margin and higher employee cost, EBITDA margin was up by 170bps to 9.8% on FX gains. Delay in mall constructions led to slower store adds, at 9 in FY24, but outlook remains strong with 20-25 additions in FY25 and overall network of 150 stores in coming 5-6 years (63 stores at FY24-end).

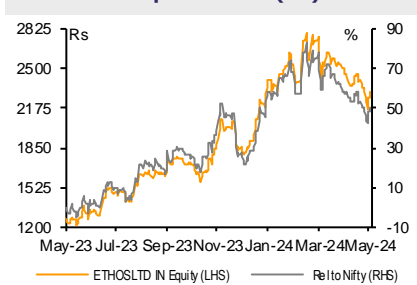
Strong commentary keeps us optimistic: 1) Benefit of the duty reduction EFTA agreement is likely to start from H2/early H1FY26, with 3% reduction in Phase-1. Ethos also expects India allocation to improve with duty reduction. 2) Focus is now on network expansion (to add >20 stores in FY25), improving digital network (launch app/revamp website), deploying the AI model in sales, network and increasing its exclusive brand moat. 3) Ethos has a clear vision of adding 150 stores over 5-6 years and increasing sales by 10x over the decade. Planned store pipeline: 1 store in Kochi (July), 1 in Dehradun (June), 1 airport store in Bengaluru (July), 6 stores in Mall of Asia (H2), *City of Times* (multiple stores), and 1 in Mangalore (H2). Ethos will also add *Messika* and a *QLOCKTWO* store in H2. 4) With its Delhi service center doing well, it will open another service center in Bengaluru in H2. 5) Given dilution of ~60% stake in Silver City to KDDL, Ethos will focus on exclusive retailing of *Favre Leuba* and receive investment support from KDDL for manufacturing operations. 6) GM trajectory is likely to trend upward, with Ethos aiming for 50% contribution from exclusive brands and gradual margin benefits from the duty waiver. 7) Rise in inventory by Rs1bn is largely due to signing of new exclusive brands and delay in store openings. 8) Drop in online traffic is due to removal of lower price-point watches; but absolute online business/profitability has improved. 9) Ethos targets ~20% ROIC for new stores in Y1, with further increase in subsequent years. Number of 5-star hotels, luxury car dealers, and external consultants, along with unpaid consumer traffic, are key parameters for a new store location. 10) Ethos's exclusive brand contracts are for a 5Y period with an auto-renewal clause for another 4 years.

Target Price – 12M	Mar-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	27.6
CMP (13-May-24) (Rs)	2,312.6

Stock Data	Ticker
52-week High (Rs)	3,044
52-week Low (Rs)	1,200
Shares outstanding (mn)	24.5
Market-cap (Rs bn)	57
Market-cap (USD mn)	678
Net-debt, FY25E (Rs mn)	-3,374
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	150.4
ADTV-3M (USD mn)	1.8
Free float (%)	36.0
Nifty-50	22,104
INR/USD	83.5
Shareholding, Mar-24	
Promoters (%)	55.7
FPIs/MFs (%)	11.3/13.1

Price Performance			
(%)	1M	3M	12M
Absolute	(5.8)	(5.4)	64.6
Rel. to Nifty	(4.0)	(7.0)	36.4

1-Year share price trend (Rs)



Devanshu Bansal

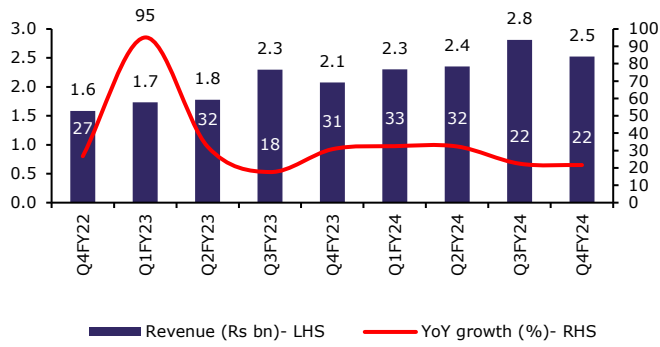
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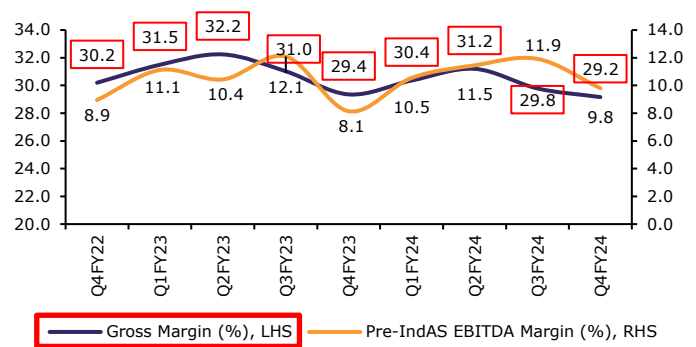
Story in Charts

Exhibit 1: Topline grew 22%, led by 10% SSG, with the remaining helped by growth in the average. store count



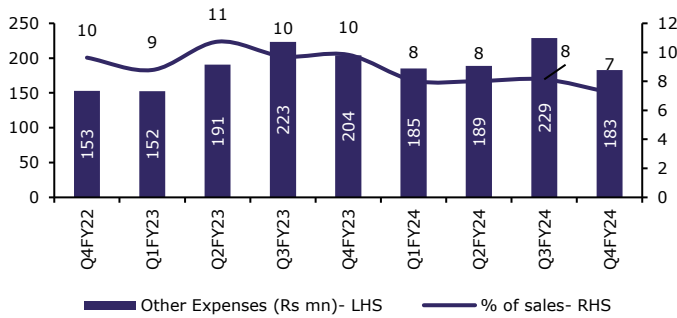
Source: Company, Emkay Research

Exhibit 2: Gross margin declined by 20bps, but EBITDA margin was up by 170bps due to higher FX gains



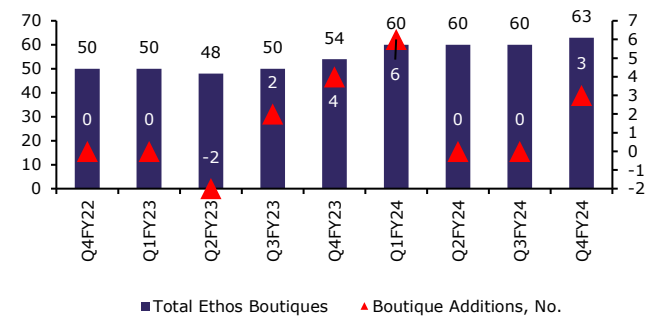
Source: Company, Emkay Research

Exhibit 3: Cost-control measures/FX gains helped keep other expenses under control in Q4



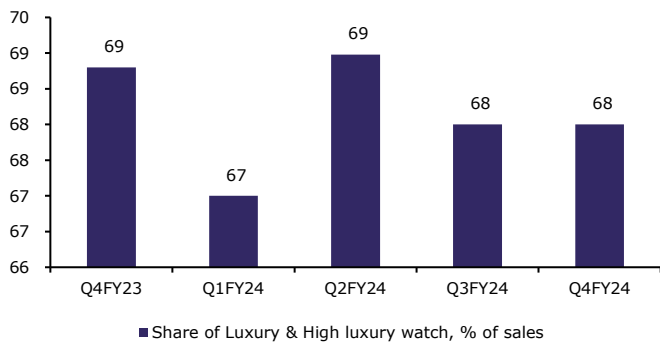
Source: Company, Emkay Research

Exhibit 4: Ethos added 9 stores in FY24; it expects 20-25 openings in FY25 with target to reach 150 over the next 5-6 years



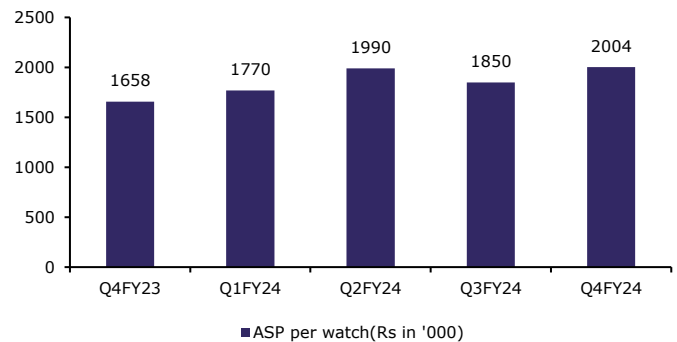
Source: Company, Emkay Research

Exhibit 5: Share of luxury and high luxury watch sales remains elevated at 68%



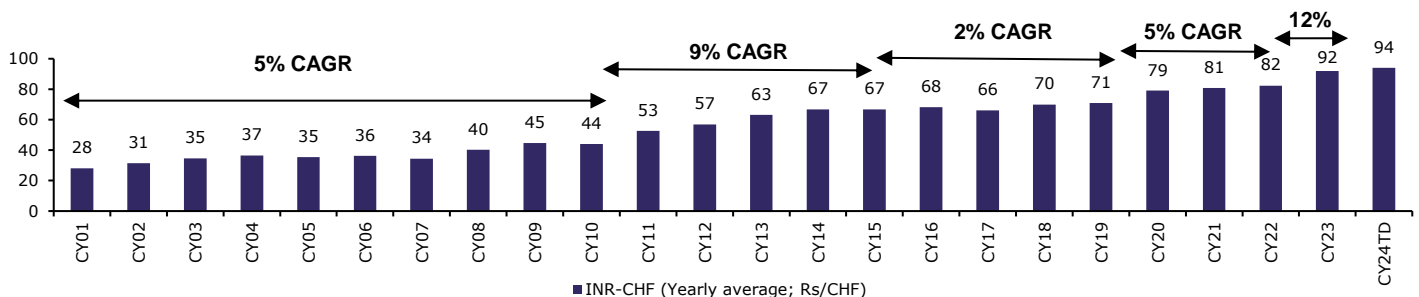
Source: Emkay Research (Ballpark numbers based on analyst's calculation)

Exhibit 6: ASP increased 21% 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 sharp 12% depreciation in CY23; Gross margin are likely to remain stable with brand MRP prices now largely in line with current CHF-INR trend



Source: Company, Emkay Research

Exhibit 8: Swiss exports to India have seen strong growth of ~13% in CY24TD, supporting Ethos's ambition of driving 25% CAGR over the next decade

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			
May	12.7	11.3	0.3	6.8	15.0	16.1			
June	11.4	10.0	4.9	5.0	15.2	19.7			
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	48.0	54.4	13.3

Source: Federation of the Swiss Watch Industry, Emkay Research

Exhibit 9: Actual vs. Estimates (Q4FY24)

(Rs mn)	Actual	Emkay estimate	Variation	Comments
Net Sales	2,525	2,556	-1.2%	Topline was in line with our estimates
EBITDA	360	399	-9.9%	EBITDA margin was lower, led by 130bps higher employee cost due to advance growth investments
EBITDA margin	14.2%	15.6%	-137	
PAT	210	218	-3.6%	Lower PAT miss was a result of higher other income

Source: Company, Emkay Research

Exhibit 10: Summary of quarterly results

Y/E, March (Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)	FY23	FY24	Gr (%)
Revenue	2,076	2,300	2,352	2,812	2,525	21.7	-10.2	7,885	9,990	26.7
Expenditure	1,821	1,961	1,979	2,367	2,165	18.9	-8.5	6,741	8,473	25.7
Consumption of RM	1,466	1,602	1,618	1,975	1,789	22.0	-9.4	5,444	6,984	28.3
As a % of sales	71%	70%	69%	70%	71%			69%	70%	
Employee Cost	150	174	173	163	194	29.0	18.6	527	704	33.6
As a % of sales	7%	8%	7%	6%	8%			7%	7%	
Other expenditure	204	185	189	229	183	-10.5	-20.2	771	786	1.9
As a % of sales	11%	9%	10%	10%	8%			10%	8%	
EBITDA	255	339	373	445	360	41.2	-19.2	1,144	1,517	32.6
Depreciation	95	107	127	125	127	34.3	1.6	346	487	40.6
EBIT	160	232	246	320	233	45.2	-27.4	798	1,030	29.2
Other Income	50	47	43	62	84	68.2	35.0	146	236	62.2
Interest	35	38	41	40	40	16.2	0.0	142	160	13.1
PBT	175	241	247	342	276	57.5	-19.2	802	1,106	38.0
Total Tax	45	61	63	88	67	50.1	-24.2	204	280	37.5
APAT	131	179	184	254	209	60.0	-17.5	598	826	38.2
Share of JV profit	-2	-2	-2	-1	-1			-5	-7	
Reported PAT	133	182	186	255	210	58.3	-17.6	603	833	38.1
Reported EPS (Rs)	5.9	7.8	8.0	10.9	9.0	54.0	-17.6	28.5	35.7	25.0
(%)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	(bps)	(bps)	FY23	FY24	(bps)
Gross Margin	29.4	30.4	31.2	29.8	29.2	-20	-60	31.0	30.1	-90
EBITDAM	12.3	14.7	15.8	15.8	14.2	200	-160	14.5	15.2	70
EBITM	7.7	10.1	10.4	11.4	9.2	150	-220	10.1	10.3	20
PBTM	8.5	10.5	10.5	12.2	10.9	250	-120	10.2	11.1	90
PATM	6.3	7.8	7.8	9.0	8.3	200	-70	7.6	8.3	70
Effective Tax rate	25.5	25.5	25.6	25.8	24.3	-120	-160	25.4	25.3	-10.0

Source: Company, Emkay Research

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Exhibit 11: Peer Comparison

Companies	Price (Rs)	Mcap (Rs bn)	Reco	Target Price (Rs/sh)	EPS (Rs)			P/E (x)			EV/EBITDA (x)*		
					FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Titan Company	3,254	2,889	Buy	4,150	39.4	49.7	63.5	82.6	65.5	51.3	54.9	43.3	34.9
Page Industries	35,147	392	Reduce	36,300	527.9	609.4	725.5	66.6	57.7	48.4	42.5	37.3	31.7
Jubilant FoodWorks	472	312	Sell	420	4.3	5.3	6.7	108.8	89.1	70.2	27.4	23.8	20.4
Devyani International	155	187	Reduce	165	0.7	1.5	2.3	234.6	102.4	66.9	29.4	22.6	17.6
ABFRL	254	258	Reduce	230	-5.6	-4.4	-2.2	-45.0	-57.7	-113.2	18.3	12.8	10.0
Westlife Foodworld	828	129	Reduce	875	4.4	3.6	9.6	186.5	232.8	86.0	35.1	33.6	23.5
Sapphire Foods	1,376	88	Add	1,600	8.2	11.3	25.1	168.3	121.2	54.8	18.6	15.7	11.6
Go Fashion	958	52	Buy	1,300	15.3	18.9	26.3	62.5	50.7	36.4	20.6	17.6	13.6
Ethos	2,313	57	Buy	2,950	34.0	42.5	55.7	68.0	54.4	41.5	35.5	28.0	20.5
Senco Gold	837	65	Buy	1,100	23.4	29.8	37.7	35.8	28.1	22.2	18.6	15.1	12.3
Varun Beverages	1,477	1,920	Add	1,650	15.8	21.1	28.2	93.4	69.9	52.4	54.3	40.3	31.8
Aditya Vision	3,488	45	Buy	5,150	66.6	93.2	133.7	52.4	37.4	26.1	27.8	20.9	15.6

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

Exhibit 12: Changes in estimates

(Rs mn)	FY25E			FY26E			FY27
	Old	New	% change	Old	New	Change (%)	New
Revenue	12,944	12,248	-5.4	17,248	15,988	-7.3	20,246
EBITDA	1,513	1,414	-6.6	2,053	1,987	-3.2	2,680
EBITDA margin (%)	11.7	11.5	-10 bps	11.9	12.4	50 bps	13.2
Net profit	1,013	1,040	2.7	1,290	1,365	5.8	1,836
EPS (Rs)	41.4	42.5	2.7	52.7	55.7	5.8	75.0

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

Ethos: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	7,885	9,990	12,248	15,988	20,246
Revenue growth (%)	36.6	26.7	22.6	30.5	26.6
EBITDA	1,144	1,498	1,925	2,626	3,479
EBITDA growth (%)	71.0	30.9	28.5	36.4	32.5
Depreciation & Amortization	346	487	580	752	941
EBIT	798	1,011	1,345	1,874	2,538
EBIT growth (%)	125.4	26.8	33.0	39.3	35.5
Other operating income	0	0	0	0	0
Other income	146	236	230	180	200
Financial expense	142	160	185	229	284
PBT	802	1,087	1,390	1,824	2,454
Extraordinary items	0	0	0	0	0
Taxes	204	280	350	460	619
Minority interest	0	0	0	0	0
Income from JV/Associates	5	7	0	0	0
Reported PAT	603	814	1,040	1,365	1,836
PAT growth (%)	157.8	35.0	27.8	31.3	34.5
Adjusted PAT	603	814	1,040	1,365	1,836
Diluted EPS (Rs)	25.8	33.2	42.5	55.7	75.0
Diluted EPS growth (%)	110.7	28.7	27.8	31.3	34.5
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	15.7	16.4	17.2
EBIT margin (%)	10.1	10.1	11.0	11.7	12.5
Effective tax rate (%)	25.4	25.8	25.2	25.2	25.2
NOPLAT (pre-IndAS)	595	751	1,006	1,401	1,899
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	1,390	1,824	2,454
Others (non-cash items)	346	487	580	752	941
Taxes paid	(204)	(280)	(350)	(460)	(619)
Change in NWC	(985)	(1,007)	(752)	(1,428)	(1,536)
Operating cash flow	(39)	237	823	738	1,325
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)	(511)	(639)	(799)
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	(521)	(649)	(809)
Net chg in Cash	1,888	1,168	(14)	(326)	171
OCF	(39)	237	823	738	1,325
Adj. OCF (w/o NWC chg.)	945	1,244	1,575	2,166	2,861
FCFF	(597)	(61)	338	193	780
FCFE	(593)	15	382	144	696
OCF/EBITDA (%)	(3.4)	15.8	42.7	28.1	38.1
FCFE/PAT (%)	(98.4)	1.9	36.8	10.5	37.9
FCFF/NOPLAT (%)	(100.4)	(8.1)	33.6	13.8	41.1

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	9,635	10,999	12,835
Net worth	6,315	8,840	9,879	11,244	13,080
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	9,946	11,311	13,147
Net tangible fixed assets	138	305	625	944	1,209
Net intangible assets	407	398	394	382	364
Net ROU assets	(93)	(129)	(204)	(298)	(416)
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	3,441	3,115	3,285
Current assets (ex-cash)	4,085	5,172	6,141	7,928	9,874
Current Liab. & Prov.	966	960	1,177	1,536	1,945
NWC (ex-cash)	3,119	4,212	4,964	6,392	7,929
Total assets	6,309	8,907	9,946	11,311	13,147
Net debt	(2,206)	(3,388)	(3,374)	(3,048)	(3,218)
Capital employed	6,309	8,907	9,946	11,311	13,147
Invested capital	3,962	5,212	6,205	7,846	9,512
BVPS (Rs)	270.5	361.1	403.6	459.3	534.3
Net Debt/Equity (x)	(0.3)	(0.4)	(0.3)	(0.3)	(0.2)
Net Debt/EBITDA (x)	(1.9)	(2.3)	(1.8)	(1.2)	(0.9)
Interest coverage (x)	0.2	0.1	0.1	0.1	0.1
RoCE (%)	20.7	16.4	16.7	19.3	22.4

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	89.5	69.6	54.4	41.5	30.8
P/CE(x)	56.9	43.5	35.0	26.7	20.4
P/B (x)	8.6	6.4	5.7	5.0	4.3
EV/Sales (x)	6.6	5.3	4.3	3.4	2.6
EV/EBITDA (x)	45.3	35.5	27.7	20.4	15.3
EV/EBIT(x)	64.9	52.6	39.6	28.6	21.0
EV/IC (x)	13.1	10.2	8.6	6.8	5.6
FCFF yield (%)	(1.2)	(0.1)	0.6	0.4	1.5
FCFE yield (%)	(1.1)	0.0	0.7	0.3	1.2
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
DuPont-RoE split					
Net profit margin (%)	7.6	8.1	8.5	8.5	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	11.1	12.9	15.1
DuPont-RoIC					
NOPLAT margin (%)	7.5	7.5	8.2	8.8	9.4
IC turnover (x)	2.5	2.2	2.1	2.3	2.3
RoIC (%)	18.7	16.4	17.6	19.9	21.9
Operating metrics					
Core NWC days	27.9	38.0	42.1	39.2	38.6
Total NWC days	144.4	153.9	147.9	145.9	142.9
Fixed asset turnover	8.6	7.7	7.5	7.7	8.1
Opex-to-revenue (%)	16.5	15.1	14.8	15.0	15.3

Source: Company, Emkay Research

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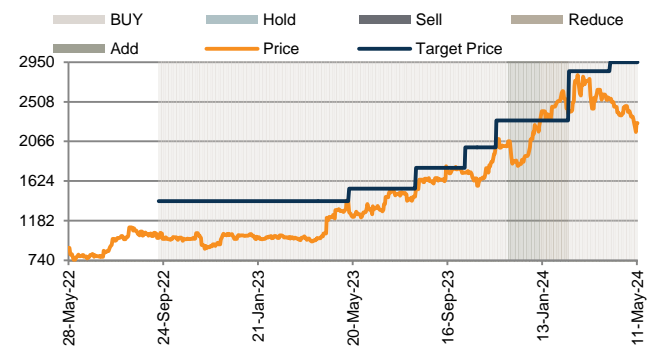
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Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Apr-24	2,542	2,950	Buy	Devanshu Bansal
11-Mar-24	2,752	2,850	Buy	Devanshu Bansal
15-Feb-24	2,399	2,850	Buy	Devanshu Bansal
10-Jan-24	2,295	2,300	Reduce	Devanshu Bansal
30-Nov-23	2,019	2,300	Add	Devanshu 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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