



Long-Term Growth Prospect Continues; Maintain BUY

Est. Vs. Actual for Q3FY24: Revenue – **MISS**; EBITDA – **MISS**; PAT – **BEAT**

Changes in Estimates post Q3FY24

FY25E/FY26E – Revenue: -2%/1%; EBITDA: -4%/2%; PAT: -5%/2%

Recommendation Rationale

- **Strong Performance Continues:** Ethos posted encouraging results despite the impact of Shradh in October, the 10-day impact of the Chennai floods, and store renovation. Revenue grew 22% YoY (SSSG grew 11%); however, adjusting for impact, SSSG growth would have been at 15% in Q3. On an encouraging note, the company has guided for a CAGR of 25% revenue growth over the next 10 years led by store network expansion, introduction of new and scaling up existing exclusive brands portfolio, and gradual expansion of CPO and new categories – Luggage (Rimova) and Jewellery businesses.
- **Store opening guidance:** As of Feb-24, the current store reach stands at 60 stores and the company plans to open 25 stores in FY25 and 15-20 stores in FY26.
- **The structural story continues:** [Ethos's promising future is underpinned by the company's robust and consistent performance over the last several quarters.](#) This is driven by – 1) Continued strong demand in the premium and luxury watch space, 2) The company foraying into the fast-growing CPO segment, 3) Increasing share of high-margin exclusive brands, 4) Diversifying into fast-growing luxury segment – Luggage and Jewellery, and 5) strong room for margin and ROCE expansion.

Sector Outlook: Positive

Company Outlook & Guidance: We maintain our **BUY** rating on the stock based on the company's bright future prospects. We have increased our FY26E EPS estimates marginally by 2% to account for a better growth outlook on a mid to long-term basis.

Current Valuation: 40x FY26 EPS (Earlier Valuation: 40x FY26 EPS).

Current TP: Rs 3,100/share (Earlier TP: Rs 3,050/share).

Recommendation With a 30% upside from the CMP, we maintain our long-term **BUY** rating on the stock.

Financial Performance: Ethos posted strong results despite the impact of Shradh in October, the 10-day impact of the Chennai floods, and store renovation. Revenue grew 22% YoY (SSSG grew 11%); however, adjusting for impact, SSSG growth would have been at 15% in Q3. On an encouraging note, the company has guided for a CAGR of 25% revenue growth over the next 10 years led by store network expansion, introduction of new and scaling up existing exclusive brands portfolio, and gradual expansion of CPO and new categories – Luggage (Rimova) and Jewellery businesses. EBITDA grew 24% YoY, while EBITDA margins stood at 15.8%, largely flat on account of higher employee cost ahead of new store openings and currency impact. PAT stood at Rs 26Cr, up 23% YoY.

RF Brands Pvt Ltd. Ethos incorporated a wholly owned subsidiary in Feb'24 to tie up with retailers to sell watches under Rs 80,000. Previously, the company had shifted focus away from this segment to concentrate on watches above Rs 1 Lc. However, due to strong demand from global watch brands, Ethos will now sell these watches through other retailers. Additionally, these watches will be assembled in India under an exclusive contract agreement, enabling Ethos to earn higher margins through RF.

Valuation & Outlook: Ethos' promising future is underpinned by the company's robust and consistent performance over the last several quarters, driven by – 1) continued strong demand in the premium and luxury watch space, 2) foraying into fast-growing CPO segment, 3) increasing share of high margin exclusive brands, 4) diversification into fast-growing luxury segment – Luggage and Jewellery and 5) strong room for margin and ROCE expansion. Given the strong investment thesis outlined above, we anticipate robust CAGR growth for the company in terms of Revenue (35%) and PAT (43%) over FY23-26E. This positive trajectory is expected to enhance the overall ROCE profile for the company from 16% in FY23 to 21% in FY26. Currently, at the CMP, the company is trading at 45x/31x its FY25/26E EPS. With improved visibility in earnings growth and a stronger return profile, the stock appears attractive within the Small-cap space. We maintain a **BUY** rating and value the company at 40x FY26 EPS to arrive at a TP of Rs 3,100/Share, implying an upside of 30% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q3FY24	QoQ (%)	YoY (%)	Axis Est.	Variance (%)
Net Sales	281	19.6	22.4	299	(5.8)
EBITDA	45	19.5	24.2	45	(1.8)
EBITDA Margin (%)	15.8	-1 bps	22 bps	15.2	64 bps
Net Profit	25	38.1	23.3	24	5.3
EPS (Rs)	10.8	36.2	13.6	10.4	3.9

Source: Company, Axis Research

(CMP as of 14th Feb 2024)

CMP (Rs)	2378
Upside /Downside (%)	30%
High/Low (Rs)	2669/918
Market cap (Cr)	5823
Avg. daily vol. (6m) Shrs '000.	72.15
No. of shares (Cr)	2.4

Shareholding (%)

	Jun-23	Sep-23	Dec-23
Promoter	63.8	63.8	57.9
FIIs	6.5	6.7	10.4
MFs / UTI	8.2	7.6	9.9
Banks / FIs	0.0	0.0	0.0
Others	21.5	21.9	21.8

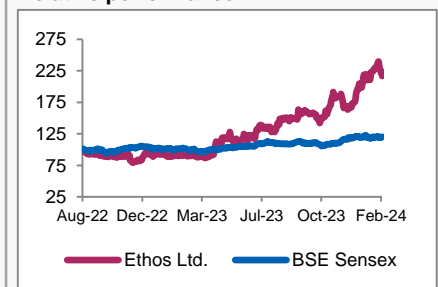
Financial & Valuations

Y/E Mar (Rs Cr)	FY24E	FY25E	FY26E
Net Sales	1,011	1,429	1,955
EBITDA	147	219	306
Net Profit	75	118	174
EPS (Rs)	33.2	52.5	77.4
PER (x)	72	45	31
EV/EBITDA (x)	36	24	17
P/BV (x)	11	14	17
ROE (%)	0.2	0.1	0.1

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-2%	1%
EBITDA	-4%	2%
PAT	-5%	2%

Relative performance



Source: Ace Equity, Axis Securities

Preeyam Tolia

Research Analyst
 email: preeyam.tolia@axissecurities.in

Suhanee Shome

Research Associate
 email: suhanee.shome@axissecurities.in

Con-call Highlights

- **Favre Leuba** has incurred a loss of 58 Lc as it is under the pre-operating phase, however, it plans to relaunch the watch in August globally during the Geneva watch convention. Further, the management highlighted that they are aiming to reach the sales target of selling 3000 watches in the first year and 100,000 watches over the next 10 years at an average of CHF 2,500/watch ex-factory price.
- **Rimowa** – Rimowa reached its profitability in Q3FY24 despite the store's operation for only three months. Furthermore, it plans to open two more stores in Delhi and Bangalore and it targets the sales of Rs +20 Cr per store.

Key Risks to our Estimates and TP

- Higher volatility in currency exchange rate (CHF/INR), slowdown in luxury & premium segment and increase in the competitive intensity.

Change in Estimates

	Old Est.		Revised Est.		% Revision	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	1,462	1,931	1,429	1,955	-2%	1%
EBITDA	227	301	219	306	-4%	2%
PAT	124	171	118	174	-5%	2%
EPS	55.1	76.2	52.5	77.4	-5%	2%

Source: Company, Axis Securities

Results Review

(Rs Cr)	Q3FY23	Q2FY24	Axis Est.	Q3FY24	% Change (Y-o-Y)	% Change (Q-o-Q)	Var (%) Axis Sec Est.
Net Sales	230	235	299	281	22.4	19.6	(5.8)
Gross Profit	71	73	93	84	17.5	14.1	(9.6)
<i>Gross Margin (%)</i>	31.0	31.2	31.0	29.8	-124 bps	-141 bps	-124 bps
Employee Expenses	13	17	21	16	25.0	(5.2)	(21.9)
Other Expenses	22	19	26	23	2.5	21.3	(13.1)
EBITDA	36	37	45	45	24.2	19.5	(1.8)
<i>EBITDA Margin (%)</i>	15.6	15.8	15.2	15.8	22 bps	-1 bps	64 bps
Oth. Inc	4	4	4	6	70.5	46.1	39.2
Interest	3	4	4	4	29.8	(2.5)	(4.4)
Depreciation	9	13	13	13	42.5	(1.4)	(4.3)
PBT	28	25	33	34	23.9	38.5	5.1
Tax	7	6	8	9	25.6	39.7	4.5
PAT	21	18	24	25	23.3	38.1	5.3
EPS	9.5	8.0	10.4	10.8	13.6	36.2	3.9

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E Mar	FY23	FY24E	FY25E	FY26E
Net sales	789	1,011	1,429	1,955
Growth, %	36.6	28.2	41.3	36.8
Total income	789	1,011	1,429	1,955
Raw material expenses	(544)	(700)	(986)	(1,346)
Employee expenses	(53)	(68)	(92)	(125)
Other Operating expenses	(77)	(96)	(131)	(178)
EBITDA (Core)	114	147	219	306
Growth, %	71.0	28.7	48.7	39.7
Margin, %	14.5	14.6	15.3	15.6
Depreciation	(35)	(50)	(64)	(76)
EBIT	80	97	155	230
Growth, %	125.4	21.7	59.8	48.4
Margin, %	10.1	9.6	10.9	11.8
Interest paid	(14)	(16)	(17)	(19)
Other Income	15	19	21	23
Non-recurring Items	-	-	-	-
Pre-tax profit	80	100	159	234
Tax provided	(20)	(26)	(41)	(60)
Profit after tax	60	75	118	174
Growth, %	156.0	24.9	58.2	47.5
Net Profit (adjusted)	60	75	118	174
Unadj. shares (Cr)	2.3	2.3	2.3	2.3
Wtd avg shares (Cr)	2.3	2.3	2.3	2.3

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E Mar	FY23	FY24E	FY25E	FY26E
Cash & bank	229	218	188	201
Marketable securities at cost	-	-	-	-
Debtors	6	8	11	15
Inventory	340	436	616	843
Other current assets	64	64	64	64
Total current assets	639	726	879	1,123
Investments	2	2	2	2
Gross fixed assets	230	295	375	445
Less: Depreciation	(29)	(79)	(143)	(218)
Add: Capital WIP	-	-	-	-
Net fixed assets	201	216	232	226
Non-current assets	27	27	27	27
Total assets	880	982	1,151	1,390
Current liabilities	228	255	306	371
Provisions	2	2	2	2
Total current liabilities	230	257	308	373
Non-current liabilities	18	18	18	18
Total liabilities	248	275	327	391
Paid-up capital	23	23	23	23
Reserves & surplus	608	683	801	975
Shareholders' equity	631	706	824	999
Total equity & liabilities	880	982	1,151	1,390

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Mar	FY23	FY24E	FY25E	FY26E
Pre-tax profit	80	100	159	234
Depreciation	35	50	64	76
Chg in working capital	(119)	(70)	(132)	(166)
Total tax paid	(20)	(26)	(41)	(60)
Other operating activities	-	-	-	-
Cash flow from operating activities	(24)	54	50	83
Capital expenditure	(106)	(65)	(80)	(70)
Other investing activities	-	-	-	-
Cash flow from investing activities	(107)	(65)	(80)	(70)
Free cash flow	(131)	(11)	(30)	13
Other financing activities	-	-	-	-
Cash flow from financing activities	(16)	-	-	-
Net chg in cash	(147)	(11)	(30)	13
Opening cash balance	40	229	218	188
Closing cash balance	229	218	188	201

Source: Company, Axis Securities

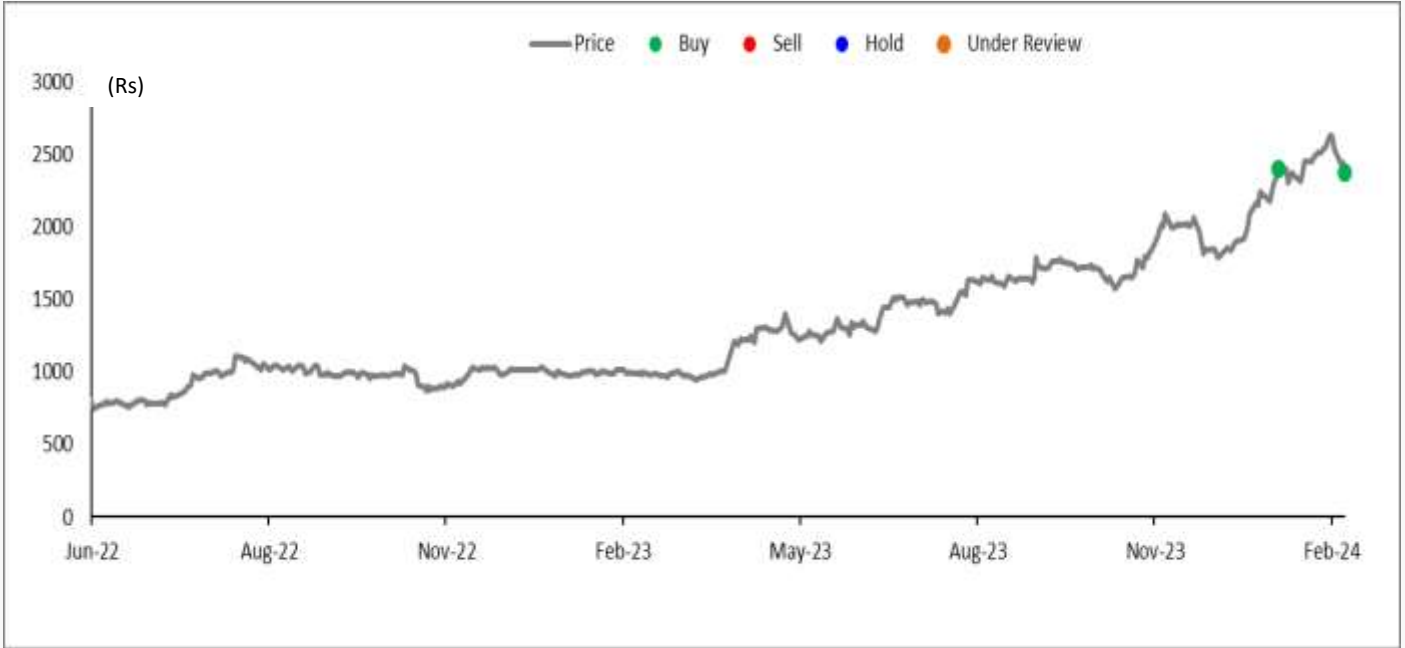
Ratio Analysis

(%)

Y/E Mar	FY23	FY24E	FY25E	FY26E
Per Share data				
EPS (INR)	26.6	33.2	52.5	77.4
Growth, %	109.3	24.9	58.2	47.5
Book NAV/share (INR)	280.5	313.7	366.1	443.6
FDEPS (INR)	26.6	33.2	52.5	77.4
CEPS (INR)	41.9	55.5	80.8	111.0
CFPS (INR)	(7.7)	15.8	12.9	26.9
Return ratios				
Return on assets (%)	10.7	9.7	12.7	15.2
Return on equity (%)	9.5	10.6	14.3	17.5
Return on capital employed (%)	16.0	13.1	17.2	20.7
Turnover ratios				
Asset turnover (x)	1.9	1.9	2.2	2.4
Sales/Total assets (x)	1.1	1.1	1.3	1.5
Sales/Net FA (x)	4.8	4.9	6.4	8.5
Working capital/Sales (x)	0.2	0.2	0.3	0.3
Receivable days	2.9	2.9	2.9	2.9
Inventory days	157.3	157.3	157.3	157.3
Payable days	52.3	52.3	52.8	53.0
Working capital days	84.2	91.1	98.2	102.9
Liquidity ratios				
Current ratio (x)	2.8	2.8	2.9	3.0
Quick ratio (x)	1.3	1.1	0.9	0.8
Interest cover (x)	5.6	6.2	9.1	12.2
Total debt/Equity (%)	0.2	0.2	0.1	0.1
Valuation				
PER (x)	89.6	71.7	45.3	30.7
PEG (x) - y-o-y growth	0.8	2.9	0.8	0.6
Price/Book (x)	8.5	7.6	6.5	5.4
EV/Net sales (x)	6.7	5.2	3.7	2.7
EV/EBITDA (x)	45.9	35.7	24.2	17.2
EV/EBIT (x)	65.8	54.2	34.1	22.9

Source: Company, Axis Securities

Ethos Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
15-Jan-24	BUY	3,050	Initiating Coverage
15-Feb-24	BUY	3,100	Result Update

About the analyst**Analyst:** Preeyam Tolia**Contact Details:** preeyam.tolia@axissecurities.in**Sector:** FMCG & Retail**Analyst Bio:** Preeyam Tolia is MBA Finance and CFA Level 1 and part of the Axis Securities Research Team.**About the analyst****Analyst:** Suhanee Shome**Contact Details:** suhanee.shome@axissecurities.in**Sector:** FMCG & Retail**Analyst Bio:** Suhanee Shome is MBA and part of the Axis Securities Research Team..**Disclosures:**

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