

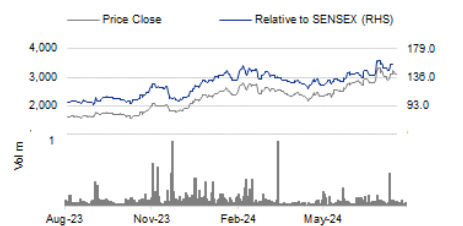
India

ADD (no change)

Consensus ratings*:	Buy 2	Hold 0	Sell 0
Current price:	Rs3,139		
Target price:	Rs3,610 ▲		
Previous target:	Rs2,960		
Up/downside:	15.0%		
InCred Research / Consensus:	17.2%		
Reuters:	ETHOSLTD IN		
Bloomberg:	ETHOSLTD IN		
Market cap:	US\$915m		
	Rs76,851m		
Average daily turnover:	US\$1.7m		
	Rs139.7m		
Current shares o/s:	24.5m		
Free float:	45.3%		
*Source: Bloomberg			

Key changes in this note

- Raise the target price to Rs3,610 from Rs2,960.
- Introduce FY27F estimates.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.8	27.0	91.8
Relative (%)	10.0	17.2	58.5

Major shareholders	% held
Promoters	54.7
ICICI Prudential Fund	6.7
Invesco	3.9

Research Analyst(s)



Rohan KALLE
T (91) 22 4161 1561
E rohan.kalle@incredresearch.com

Nishant BAGRECHA
T (91) 22 4161 1564
E nishant.bagrecha@incredresearch.com

Saurabh SINGH
T (91) 2241611558
E saurabh.singh@incredresearch.com

Ethos Limited

Strong start to the year

- Ethos maintained its strong growth momentum at 18.8%/8.2% yoy/qoq, respectively, in 1QFY25, led by strong demand from the luxury segment.
- Gross/EBITDA margins are expected to remain on an improving trajectory led by lower discounts, better mix and higher ASP (up 25% in 1QFY25).
- We remain upbeat on the company's growth prospects led by healthy demand for luxury products. Retain ADD rating with a higher target price of Rs3,610.

Luxury demand remains healthy; outlook positive for rest of the year

1QFY25 revenue of Ethos grew 18.8%/8.2% yoy/qoq, respectively, to Rs2.73bn. Same-store sales growth (SSSG) stood at 12.3%. Management commentary exuberated confidence to maintain the trajectory going ahead. The average selling price or ASP per watch was up 25% yoy at Rs2,20,520 in 1QFY25 (vs. Rs1,76,953 in 1QFY24) led by strong demand in the luxury segment. The share of luxury and high-end luxury watches improved to 73% in 1QFY25 vs. 66%/68% in FY23/FY24, respectively. Second Movement (its pre-owned segment) witnessed a 31.7% yoy growth in 1QFY25. We expect a gradual improvement in demand led by continued outperformance from the luxury segment.

Network expansion continues; lifestyle segment off to a good start

Ethos plans to add 20-25 new stores in FY25F and targets reaching a network of 150 stores over the next five-to-six years. It opened three stores in 1QFY25 and plans to launch five more in 2QFY25F. The Rimowa outlet in Mumbai is currently doing well and Ethos targets 8-10 more stores over the next few years. The first outlet of Messika (jewellery) has been finalized in Chanakya Mall (Delhi) and it is expected to be operational by Jan 2025F. More stores are expected to be opened going ahead. Ethos aims to bring in more brands to India next year. Ethos continues to target a 10x growth over the next decade and is expected to maintain its leadership position in the growing luxury segment in India.

Margins expected to remain healthy for the rest of FY25F

Gross margin contracted by 74bp yoy to 29.6% in 1QFY25 led by discounts. Gross margin improved from Jul 2024 (28% yoy growth clocked). Despite a drop in gross margin and a 9.4% yoy growth in employee expenses, the EBITDA margin expanded by 109bp yoy to 15.8% in 1QFY25 led by flat yoy other expenses (6.8% of sales, down 123bp yoy) and better operating efficiency. EBITDA grew 27.6% yoy to Rs433m while PAT rose 25.5% yoy to Rs228m. Inventory level is high currently but over the next few years, Ethos will remove the underperforming brands from its portfolio and improve efficiency.

Retain ADD rating with a higher target price of Rs3,610

We remain upbeat on the growth prospects of Ethos and expect it to sustain its strong growth momentum, led by continued performance from the luxury segment. We retain our ADD rating on Ethos, raising its target price to Rs3,610 (from Rs2,960) based on a P/E multiple of 50x Sep 2026F EPS. Downside risk: Slowdown in the demand for luxury goods.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	7,885	9,990	12,433	16,314	20,371
Operating EBITDA (Rsm)	1,144	1,517	2,027	2,741	3,545
Net Profit (Rsm)	603	833	1,075	1,417	1,881
Core EPS (Rs)	25.8	34.0	43.9	57.9	76.8
Core EPS Growth	103.3%	31.7%	29.1%	31.7%	32.8%
FD Core P/E (x)	121.55	92.26	71.47	54.25	40.85
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	62.14	48.41	36.27	26.60	20.25
P/FCFE (x)	(19.00)	(76.08)	126.05	63.58	52.08
Net Gearing	(34.9%)	(38.5%)	(33.8%)	(34.8%)	(38.4%)
P/BV (x)	11.61	8.69	7.75	6.78	5.82
ROE	14.0%	11.0%	11.5%	13.3%	15.3%
% Change In Core EPS Estimates			0.16%	(0.24%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Strong start to the year

Highlights from the earnings conference call

Highlights ►

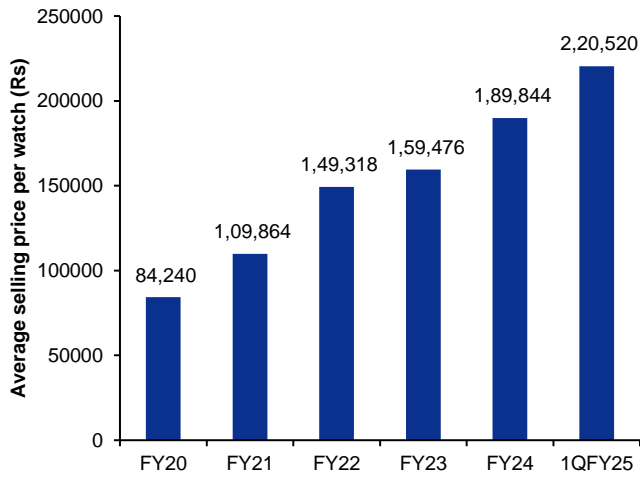
- SSSG stood at 12.3% for the quarter.
- Average selling price (ASP) was up 25% yoy in 1QFY25 at Rs2,20,520.
- Second Movement (its pre-owned segment) saw a 32% sales growth during the quarter.
- Added two new brands in 1QFY25 – ID Geneve and Singer Reimagined. Ethos plans to add more brands over the next one year.
- Three new stores were added in 1QFY25, with five more expected in 2QFY25F. Targeting 20-25 new stores in FY25F.
- The Rimowa store in Mumbai is clocking healthy monthly growth and 8-10 more stores are expected to be opened in the next few years.
- Finalized the first store for Messika at Chanakya Mall in Delhi, which will be ready by Jan 2025F, marking its entry into the international jewellery market.
- Gross margin was lower due to discounts being offered in 1Q. From Jul 2024, the margins have improved.
- Ethos is expected to retain the margin benefit from duty reduction for 90% of its exclusive brands and share margin benefits with the remaining 10%. Ethos is also negotiating with non-exclusive brands to share the benefits of the waiver.

Figure 1: Quarterly results summary - consolidated

Y/E Mar (Rs m)	1QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)
Revenue	2,300	2,525	2,732	18.8	8.2
Expenditure	1,961	2,165	2,300	17.3	6.2
Cost of goods sold	1,602	1,789	1,923	20.1	7.5
<i>as % of sales</i>	69.6	70.8	70.4	1.1	-0.6
Employee costs	174	194	190	9.4	-2.0
<i>as % of sales</i>	7.6	7.7	7.0	-7.9	-9.4
Other expenditure	185	183	187	0.6	2.1
<i>as % of sales</i>	8.1	7.2	6.8	-15.3	-5.6
EBITDA	339	360	433	27.6	20.3
Depreciation	107	127	143	33.6	12.5
EBIT	232	233	290	24.8	24.5
Other income	47	84	64	36.6	-24.1
Interest	38	40	45		
PBT	241	276	308	27.9	11.5
Total tax	61	67	79	28.3	17.3
Net profit (before extraordinary items)	180	209	230	27.8	9.7
Extraordinary items	2	1	-2	NA	NA
Reported net profit	182	210	228	25.5	8.4
Adjusted EPS	7.8	8.6	9.3	19.7	8.4
Margins (%)				(bp)	(bp)
Gross margin	30.4	29.2	29.6	-74	46
EBITDA	14.7	14.2	15.8	109	159
EBIT	10.1	9.2	10.6	51	139
EBT	10.5	10.9	11.3	81	34
Net profit	7.8	8.3	8.4	59	11
Effective tax rate	25.5	24.3	25.5	7	125

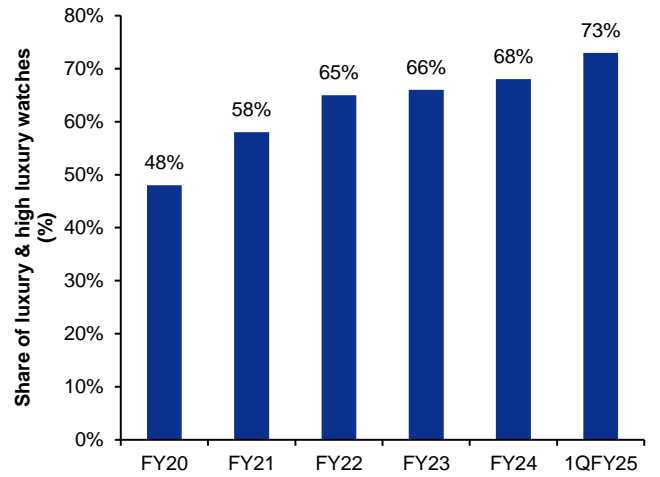
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: ASP (per watch) was up 25% yoy in 1QFY25



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: The share of luxury and high-end luxury products rose to 73% in 1QFY25



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Launched Swiss brand ID Geneve



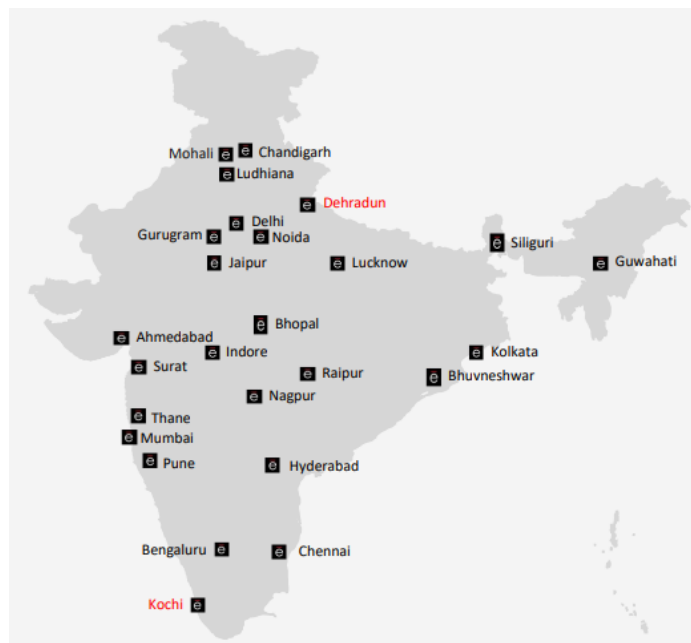
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Launched Swiss brand Singer Reimagined



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Ventured into new cities such as Kochi and Dehradun



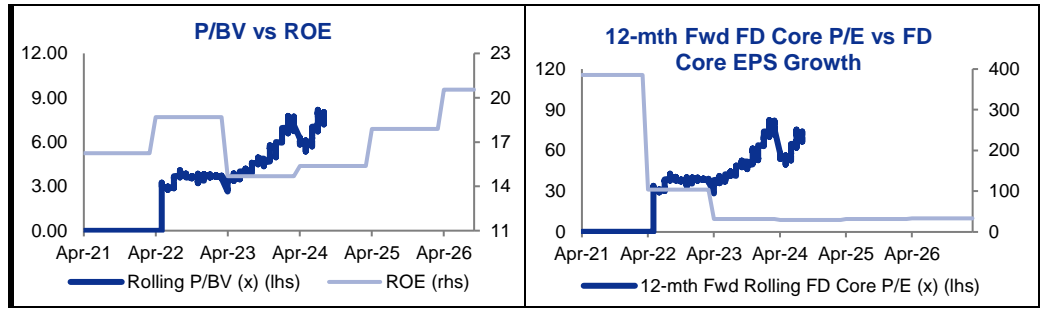
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Our revised earnings estimates

Rs. m	FY25F			FY26F			FY27F
	Previous	Revised	% Change	Previous	Revised	% Change	
Revenue	12,660	12,433	(1.8)	15,990	16,314	2.0	20,371
EBITDA	2,006	2,027	1.0	2,610	2,741	5.0	3,545
<i>EBITDA Margin (%)</i>	15.8	16.3	50 bps	16.3	16.8	50 bps	17.4
Net Profit	1,074	1,075	0.1	1,420	1,417	(0.2)	1,881
EPS (Rs.)	43.9	43.9	0.1	58.0	57.9	(0.2)	76.8

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	7,885	9,990	12,433	16,314	20,371
Gross Profit	2,442	3,006	3,904	5,139	6,519
Operating EBITDA	1,144	1,517	2,027	2,741	3,545
Depreciation And Amortisation	(346)	(487)	(663)	(736)	(855)
Operating EBIT	798	1,030	1,364	2,004	2,689
Financial Income/(Expense)	(66)	(41)	22	(161)	(223)
Pretax Income/(Loss) from Assoc.	5	7	7	7	7
Non-Operating Income/(Expense)	70	117	50	50	50
Profit Before Tax (pre-EI)	807	1,113	1,442	1,900	2,523
Exceptional Items					
Pre-tax Profit	807	1,113	1,442	1,900	2,523
Taxation	(204)	(280)	(367)	(483)	(642)
Exceptional Income - post-tax					
Profit After Tax	603	833	1,075	1,417	1,881
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	603	833	1,075	1,417	1,881
Recurring Net Profit	603	833	1,075	1,417	1,881
Fully Diluted Recurring Net Profit	603	833	1,075	1,417	1,881

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	1,144	1,517	2,027	2,741	3,545
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(970)	(936)	(928)	(1,063)	(1,426)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(15)	28	79	(105)	(167)
Net Interest (Paid)/Received	21	(23)	(22)	161	223
Tax Paid	(203)	(279)	(367)	(483)	(642)
Cashflow From Operations	(22)	308	789	1,252	1,534
Capex	(566)	(394)	(350)	(189)	(148)
Disposals Of FAs/subsidiaries	11	79			
Acq. Of Subsidiaries/investments	(2,082)	(1,031)			
Other Investing Cashflow	75	119	171	146	90
Cash Flow From Investing	(2,562)	(1,228)	(179)	(43)	(58)
Debt Raised/(repaid)	(868)	(67)			
Proceeds From Issue Of Shares	3,750	1,750			
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	(41)	(24)	(9)	(10)	(11)
Cash Flow From Financing	2,841	1,659	(9)	(10)	(11)
Total Cash Generated	257	739	601	1,199	1,465
Free Cashflow To Equity	(3,452)	(987)	610	1,209	1,476
Free Cashflow To Firm	(2,725)	(1,080)	461	901	1,162

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	2,286	3,468	3,356	3,944	5,076
Total Debtors	62	156	194	254	318
Inventories	3,399	4,396	5,382	6,643	8,291
Total Other Current Assets	638	649	808	1,060	1,324
Total Current Assets	6,385	8,669	9,739	11,902	15,009
Fixed Assets	935	927	1,024	895	657
Total Investments	21	240	240	240	240
Intangible Assets					
Total Other Non-Current Assets	1,455	1,753	2,315	2,417	2,364
Total Non-current Assets	2,412	2,921	3,579	3,552	3,261
Short-term Debt	9	46			
Current Portion of Long-Term Debt					
Total Creditors	966	983	1,224	1,606	2,005
Other Current Liabilities	285	425	529	695	867
Total Current Liabilities	1,260	1,454	1,753	2,300	2,872
Total Long-term Debt	71	19			
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,151	1,411	2,024	2,157	2,133
Total Non-current Liabilities	1,222	1,430	2,024	2,157	2,133
Total Provisions					
Total Liabilities	2,482	2,884	3,777	4,457	5,005
Shareholders Equity	6,315	8,840	9,915	11,332	13,213
Minority Interests					
Total Equity	6,315	8,840	9,915	11,332	13,213

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	36.6%	26.7%	24.5%	31.2%	24.9%
Operating EBITDA Growth	71.0%	32.6%	33.6%	35.2%	29.3%
Operating EBITDA Margin	14.5%	15.2%	16.3%	16.8%	17.4%
Net Cash Per Share (Rs)	94.50	139.02	137.07	161.12	207.37
BVPS (Rs)	270.45	361.09	405.02	462.89	539.73
Gross Interest Cover	5.63	6.43	9.16	6.52	8.58
Effective Tax Rate	25.3%	25.2%	25.4%	25.4%	25.4%
Net Dividend Payout Ratio					
Accounts Receivables Days	2.63	3.97	5.13	5.01	5.12
Inventory Days	197.72	203.71	209.23	196.37	196.76
Accounts Payables Days	60.38	50.94	47.22	46.21	47.57
ROIC (%)	22.6%	19.7%	21.1%	25.2%	30.0%
ROCE (%)	18.8%	15.0%	16.3%	20.2%	22.6%
Return On Average Assets	12.6%	11.3%	11.4%	14.3%	16.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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