

India

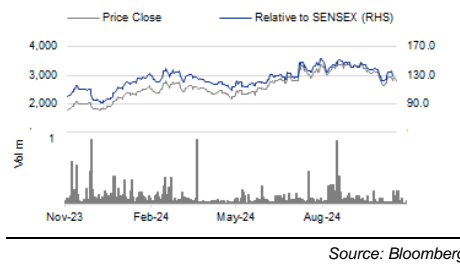
ADD (no change)

Consensus ratings*:	Buy 2	Hold 0	Sell 0
Current price:	Rs2,832		
Target price:	Rs3,400		
Previous target:	Rs3,610		
Up/downside:	20.1%		
InCred Research / Consensus:	-7.0%		
Reuters:	ETHOSLTD IN		
Bloomberg:	ETHOSLTD IN		
Market cap:	US\$955m	Rs69,322m	
Average daily turnover:	US\$2.2m	Rs161.4m	
Current shares o/s:	24.5m		
Free float:	48.8%		

*Source: Bloomberg

Key changes in this note

- Lower target price to Rs3,400 from Rs3,610.
- Lower FY25F/26F EPS by 11-13%.



Price performance	1M	3M	12M
Absolute (%)	(10.1)	(7.5)	58.6
Relative (%)	(7.7)	(8.2)	29.6

Major shareholders	% held
Promoters	51.2
ICICI Prudential Fund	6.3
Invesco	5.0

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Ethos Limited

Growth acceleration expected

- Strong momentum registered in 1H, with sales/ASP growing 22.6%/15.5%, respectively. 2HFY25F is likely to fare better led by festive/wedding demand.
- The EBITDA margin contracted 166bp yoy to 14.2% led by forex fluctuations, higher manpower costs & rentals for new stores. The outlook remains positive.
- We remain upbeat on growth prospects of Ethos, with healthy demand for its luxury products & new brand additions. Retain ADD with a new TP of Rs3,400.

Strong delivery in 1HFY25; further acceleration expected in 2H

Ethos posted 26.3%/22.6% yoy growth in 2QFY25/1HFY25 led by 17%/5% growth in volume, respectively. ASP was up 15.5% yoy at Rs216k in 1HFY25. SSSG stood at 15.5% in 1HFY25. Revenue from exclusive brands stood at 28% of sales in 1HFY25. Demand remained robust, with Oct 2024 registering strong growth (45%+) and is expected to accelerate in 2HFY25F led by strong festive demand & higher wedding days. Ethos added three exclusive brands in 1HFY25, of which ID Geneve & Singer Reimagined were launched in 1Q and Hautlence was added in 2QFY25. The management commentary pointed out further additions going ahead, with 20% of its total retail network currently undergoing renovation to accommodate more brands next year. Favre Leuba is expected to be rolled out in 40 boutiques across India, after its successful launch in Switzerland.

Lifestyle segment is firming up; more brand additions expected

Rimowa has completed one year of operations (one store in Mumbai) and is a highly profitable venture. Management is optimistic about upwards of 8x growth over the next five years and will add more brands in the luggage space in the next few quarters. Messika's first store is expected to commence operations in Feb 2025F in Delhi and will see 5-10 more store additions in the next five years. More brands are expected to be launched soon.

Margin impacted by forex fluctuations, higher store-related costs

Gross/EBITDA margins contracted by 103bp/166bp yoy to 30.2%/14.2%, respectively, in 2QFY25. The EBITDA margin was hit by appreciation of CHF/INR and higher manpower & rental costs for new stores. With respect to possibility of a GST hike on luxury categories, management feels that if forex movement is stable and there is a GST hike, the revenue neutral price hikes required would be to the tune of c.8% which, management believes, will not be taken in full effect as India has some of the highest promotional offers globally, which can also be adjusted to negate any adverse impact. Partner brands are also expected to provide support in case of any challenges, which provides additional comfort.

Growth acceleration expected; retain ADD with a new TP of Rs3,400

Ethos delivered strong growth in 1HFY25, despite a challenging environment. Festive demand remains strong and, coupled with higher wedding days, it will lead to accelerated growth in 2H. We retain our ADD rating on Ethos with a lower target price of Rs3,400 (50x FY27F EPS), as we roll forward. Downside risks: Slowdown in demand for luxury goods.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	7,885	9,990	12,498	16,311	20,368
Operating EBITDA (Rsm)	1,144	1,517	2,037	2,789	3,605
Net Profit (Rsm)	603	833	938	1,258	1,668
Core EPS (Rs)	25.8	34.0	38.3	51.4	68.1
Core EPS Growth	103.3%	31.7%	12.6%	34.1%	32.6%
FD Core P/E (x)	109.64	83.23	73.91	55.11	41.56
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)	55.86	43.45	32.38	23.44	17.82
P/FCFE (x)	(17.14)	(68.63)	155.41	64.33	54.93
Net Gearing	(34.9%)	(38.5%)	(34.3%)	(35.7%)	(40.0%)
P/BV (x)	10.47	7.84	7.09	6.28	5.46
ROE	14.0%	11.0%	10.1%	12.1%	14.1%
% Change In Core EPS Estimates			(12.77%)	(11.21%)	(11.33%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

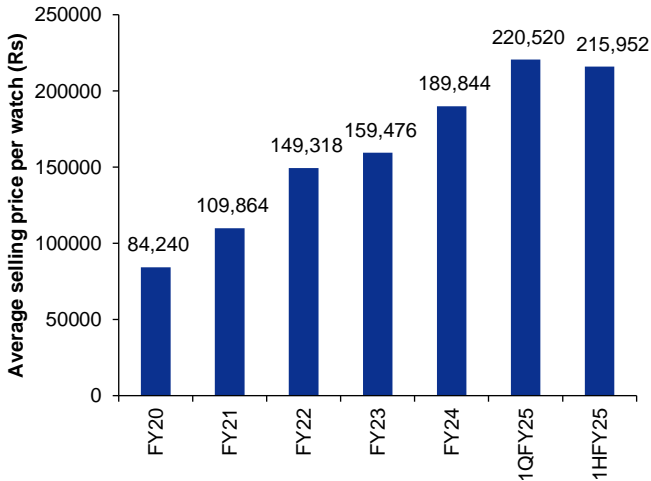
Growth acceleration expected

Figure 1: Quarterly results summary – consolidated

Y/E Mar (Rs m)	2QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)	1HFY24	1HFY25	Gr (%)
Revenue	2,352	2,732	2,971	26.3	8.7	4,652	5,704	22.6
Expenditure	1,979	2,300	2,550	28.8	10.9	3,940	4,849	23.1
Cost of goods sold	1,618	1,923	2,075	28.2	7.9	3,220	3,998	24.2
as % of sales	68.8	70.4	69.8	1.5	-0.8	69.2	70.1	
Employee costs	173	190	207	19.8	8.7	346	397	14.6
as % of sales	7.3	7.0	7.0	-5.2	0.0	7.4	7.0	
Other expenditure	189	187	268	42.3	43.9	374	455	21.6
as % of sales	8.0	6.8	9.0	12.6	32.3	8.0	8.0	
EBITDA	373	433	422	13.1	-2.6	712	854	20.0
Depreciation	127	143	150	18.2	4.7	234	293	25.2
EBIT	246	290	272	10.4	-6.2	478	561	17.4
Other income	43	64	61	43.8	-4.2	89	125	40.1
Interest	41	45	45			79	91	
PBT	247	308	287	16.3	-6.8	488	596	22.0
Total tax	63	79	74	16.8	-6.0	125	153	22.5
Net profit (before extraordinary items)	184	230	213	16.1	-7.0	363	443	21.9
Extraordinary items	2	-2	-1	NA	NA	4	-3	NA
Reported net profit	186	228	212	14.2	-6.8	368	441	19.8
Adjusted EPS	8.0	9.3	8.7	8.9	-6.8	15.8	18.0	14.2
Margins (%)				(bp)	(bp)			(bp)
Gross margin	31.2	29.6	30.2	-103	55	30.8	29.9	-88
EBITDA	15.8	15.8	14.2	-166	-165	15.3	15.0	-33
EBIT	10.5	10.6	9.1	-132	-146	10.3	9.8	-43
EBT	10.5	11.3	9.7	-83	-161	10.5	10.4	-5
Net profit	7.8	8.4	7.2	-63	-122	7.8	7.8	-4
Effective tax rate	25.6	25.5	25.7	12	20	25.5	25.6	9

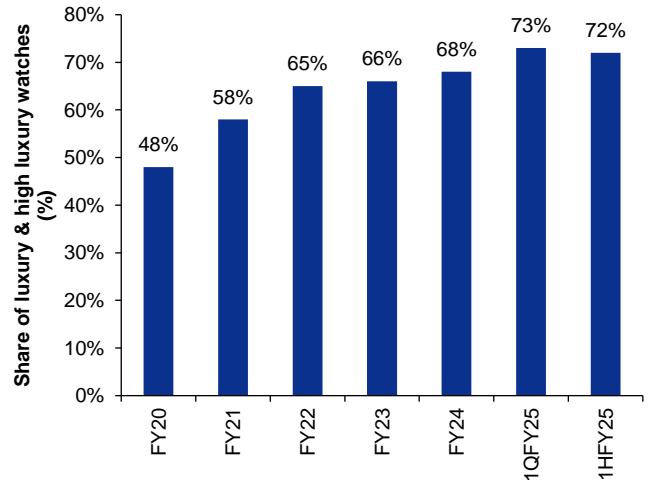
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: ASP rises by 15.5% yoy in 1HFY25



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: The share of luxury & high luxury range stands at 72%



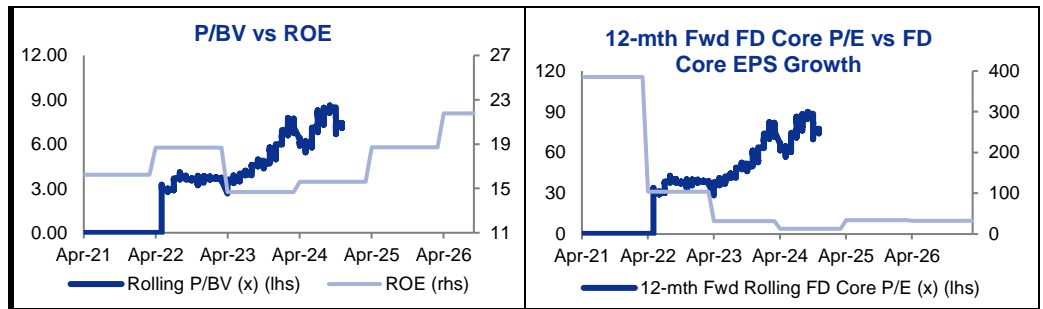
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Our revised earnings estimates

Rs. m	FY25F			FY26F			FY27F		
	Previous	Revised	% Change	Previous	Revised	% Change	Previous	Revised	% Change
Revenue	12,433	12,498	0.5	16,314	16,311	(0.0)	16,314	20,368	24.9
EBITDA	2,027	2,037	0.5	2,741	2,789	1.8	2,741	3,605	31.5
EBITDA Margin (%)	16.3	16.3	0bp	16.8	17.1	30 bps	16.8	17.7	90bp
Net Profit	1,075	938	(12.7)	1,417	1,258	(11.2)	1,417	1,668	17.7
EPS (Rs.)	43.9	38.3	(12.7)	57.9	51.4	(11.3)	57.9	68.1	17.7

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	12,498	16,311	20,368
Gross Profit	2,442	3,006	3,924	5,138	6,518
Operating EBITDA	1,144	1,517	2,037	2,789	3,605
Depreciation And Amortisation	(346)	(487)	(663)	(736)	(855)
Operating EBIT	798	1,030	1,374	2,053	2,750
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	1,453	1,948	2,583
Exceptional Items					
Pre-tax Profit	807	1,113	1,453	1,948	2,583
Taxation	(204)	(280)	(515)	(690)	(915)
Exceptional Income - post-tax					
Profit After Tax	603	833	938	1,258	1,668
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	603	833	938	1,258	1,668
Recurring Net Profit	603	833	938	1,258	1,668
Fully Diluted Recurring Net Profit	603	833	938	1,258	1,668

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	1,144	1,517	2,037	2,789	3,605
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(970)	(936)	(954)	(1,035)	(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)	(515)	(690)	(915)
Cashflow From Operations	(22)	308	625	1,120	1,320
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	437	1,068	1,251
Free Cashflow To Equity	(3,452)	(987)	446	1,078	1,262
Free Cashflow To Firm	(2,725)	(1,080)	297	770	949

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	195	254	317
Inventories	3,399	4,396	5,412	6,641	8,290
Total Other Current Assets	638	649	812	1,060	1,324
Total Current Assets	6,385	8,669	9,774	11,900	15,008
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	1,230	1,605	2,005
Other Current Liabilities	285	425	532	694	867
Total Current Liabilities	1,260	1,454	1,762	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	3,786	4,457	5,005
Shareholders Equity	6,315	8,840	9,778	11,036	12,704
Minority Interests					
Total Equity	6,315	8,840	9,778	11,036	12,704

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	36.6%	26.7%	25.1%	30.5%	24.9%
Operating EBITDA Growth	71.0%	32.6%	34.3%	36.9%	29.3%
Operating EBITDA Margin	14.5%	15.2%	16.3%	17.1%	17.7%
Net Cash Per Share (Rs)	94.50	139.02	137.07	161.12	207.37
BVPS (Rs)	270.45	361.09	399.41	450.79	518.93
Gross Interest Cover	5.63	6.43	9.23	6.68	8.77
Effective Tax Rate	25.3%	25.2%	35.4%	35.4%	35.4%
Net Dividend Payout Ratio					
Accounts Receivables Days	2.63	3.97	5.12	5.02	5.12
Inventory Days	197.72	203.71	208.78	196.88	196.75
Accounts Payables Days	60.38	50.94	47.12	46.32	47.57
ROIC (%)	22.6%	19.7%	21.2%	25.7%	30.7%
ROCE (%)	18.8%	15.0%	16.5%	21.1%	23.9%
Return On Average Assets	12.6%	11.3%	11.5%	14.6%	16.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.