



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Revenue for the company increased by 22% to Rs 281 crore
- The company expects to open 25 stores in FY25 and 15-20 stores in FY26, with a current store reach of 60 as of Q3FY24.
- Gradual expansion of CPO and new categories – Luggage (Rimova) and Jewellery businesses.
- Ethos raised Rs.1.8bn via QIP in Q3, adding to its cash reserves of Rs1.8bn at the conclusion of the first half. The funds will be used for additional store openings.

2. MANAGEMENT COMMENTARY:

- Demand from Tier 2 and Tier 3 cities is strong and expected to continue for the next few years.
- The ASP for the quarter was Rs 1,86,533 in 9MFY24, compared to 1,59,476 in FY23. The growth in ASP is due to increased sales of high-priced products. The corporation is transitioning away from the low-cost watch category.
- Diversifying into rapidly increasing premium areas, including Rimowa luggage and Messika and Bvlgari jewellery.
- Rimowa achieved profitability in Q3FY24, despite the store only being open for three months. The company aims to open two more stores in Delhi and Bangalore, with a sales target of Rs 20 Cr each outlet.
- Ethos' unique portfolio currently includes 46 brands, up from 33 in FY22. Ethos has formed an exclusive collaboration with brands such as Ulysse Nardin, Bell & Ross and Baume & Mercier.

3. BUSINESS OVERVIEW:

- Ethos Ltd was established in 2003 and is one of India's largest luxury and premium watch retailers. The company caters to over 60+ premium and luxury watch brands, which includes 46+ exclusive brands that are available exclusively at Ethos. It has over 7000 SKUs of premium, bridge to luxury, luxury and high-luxury watches. Ethos is a global leader in the Certified Pre-Owned (CPO) luxury watch market. They sell and buy pre-owned luxury timepieces with a 360-degree inspection and a two-year warranty. The Company is also Diversifying into rapidly increasing premium areas, including Rimowa luggage and Messika and Bvlgari jewellery.

4. MANAGEMENT GUIDANCE

- Expect to open 25 new boutiques by the end of the next financial year.
- Introduction of new and scaling up existing exclusive brands portfolio.
- Gradual expansion of CPO and new categories – Luggage (Rimova) and Jewellery businesses
- With ambitious expansion goals based on new collaborations, Ethos wants to increase its exclusive mix from approx 30% to approximately 45% by FY26.

5. LUXURY WATCH INDUSTRY

- The mechanical watch market in India has been steadily expanding in recent years. Mechanical watches have gained considerable popularity among customers who value the craftsmanship and complexity of these timepieces. The mechanical watch market is expected to witness growth in the coming years due to the increasing number of luxury and premium watch brands. The Indian watch market is projected to register a CAGR of 20.32% over the forecast year of 2022-2027

6. VALUATION AND OUTLOOK:

- Ethos plans to add 100 stores over the next 5 years, with 15-17 stores already in the pipeline for FY25 at two luxury destinations. Sustained high demand for luxury and premium watches, expanding footprint in Tier 2/3 Cities. Diversification into fast-growing luxury segment – Luggage and Jewellery and CPO Segment.
- We value the company at 66x FY25 EPS to arrive at the target of 2960.

RECOMMENDATION - BUY

CMP - 2521

TARGET - 2960 (17.5%)

Industry	Retailing
NSE CODE	ETHOSLTD
BSE CODE	543532
Market Cap (₹ Cr)	6225.99
Shares Outstanding (in Cr)	2.45
52 wk High/Low (₹)	3044 / 970.1
P/E	82.41
P/BV	7.17
Face Value (₹)	10.00
Book Value (₹)	354.76
EPS (FY23) (₹)	25.82
Dividend Yield (%)	0.00

SHAREHOLDING PATTERN

	Dec'23	Sep'23	Jun'23
Promoters	57.89	63.82	63.82
Mutual Funds	9.87	7.57	8.17
FII/FPI	10.41	6.69	6.49
Non-Institutions	19.54	19.83	19.18
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2023A	2024E	2025E
Core			
Revenue	788	1064	1309
Total Expense	668	894	1100
EBITDA	120	164	209
Interest Expense	20	16	18
Depreciation	35	45	55
PAT	60.3	88	110
EPS	25.82	35.92	44.85
Ratios			
ROE (%)	13.86	13.1	14.2
ROCE (%)	21.48	22.5	23.8
Valuation			
P/E (x)	37.55	82	66
P/BV (x)	3.56	2.8	2.3

Historical & Industrial Val Ratios

Historical P/E	82.41
Industry P/E	109.11
Historical P/B	7.17
Industry P/B	16.52



Liability Trends	Q3FY24	Q2FY24	Q1FY24	Q4FY23	Q3FY23	Q2FY23	Q1FY23
Overall Brands Portfolio	60	61	60	56	50	48	50
Exclusive Brands Portfolio	46	46	42	40	39	35	35
Share of Luxury & High luxury watch sales (%)	68	68	67	66	65	65	65.50
ASP Per Watch	186533	187468	176953	159476	157327	153832	158227

QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY22	FY23				FY24			FY24E*	FY25E*
		Q4	Q1	Q2	Q3	Q4	Q1	Q2		
Net Sales	158.69	173.56	177.72	229.68	207.57	230.02	234.19	281.20	1065	1309
YoY Change	28.92%	95.14%	32.26%	17.62%	30.80%	32.53%	31.77%	22.43%	30%	23%
Total Expenditure	138.84	146.53	152.00	194.59	182.18	196.19	197.39	236.93	894	1100
EBITDA	19.85	27.03	25.73	35.08	25.39	33.83	36.80	44.27	170	210
EBITDA Margin	12.51%	15.57%	14.48%	15.27%	12.23%	14.71%	15.71%	15.74%	16%	16%
Other Income	2.60	2.23	3.81	4.13	5.03	4.74	4.44	6.56	8	10
Interest	4.51	4.23	3.34	3.11	3.46	3.79	4.13	4.03	16	18
PBDT	17.94	25.03	26.19	36.11	26.96	34.78	37.11	46.80	162	201
Depreciation	7.99	8.09	8.20	8.74	9.50	10.72	12.46	12.31	45	55
PBT	9.94	16.94	17.99	27.37	17.47	24.07	24.65	34.49	117	146
Tax	2.15	4.31	4.48	6.79	4.39	6.08	6.21	8.64	29	36
Profit After Tax	7.79	12.63	13.51	20.58	13.08	17.99	18.44	25.84	88	110
YoY Change	79.08%	1287.91%	409.81%	71.36%	67.91%	42.44%	36.49%	25.56%	48%	25%

Source: Company, Hem Securities Research.

EWS*Insights into the assumptions:

- 1> Ethos average selling price (ASP) has increased, led by increase in mix of luxury and high luxury watch categories..
- 2> First mover in the CPO market
- 3> Expansion of exclusive portfolio
- 4> Growth in HNI and UHNI numbers will significantly fuel the expansion of luxury businesses.
- 5> Diversifying into rapidly increasing premium areas, including Rimowa luggage and Messika and Bvlgari jewellery.

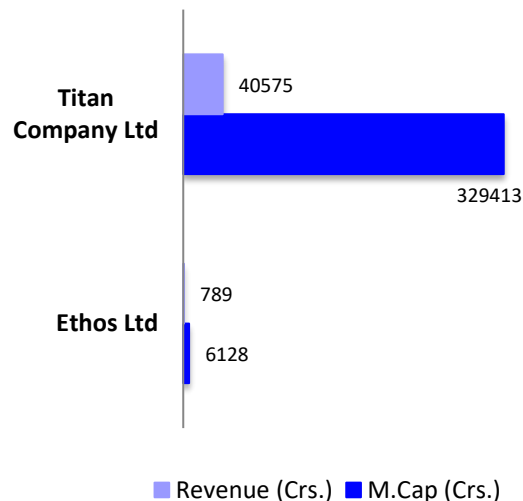


STORY IN CHARTS

INDUSTRY OVERVIEW

- The demand for luxury goods, such as premium watches, is rising as consumer spending and disposable incomes increase. In addition, growing consumer preference for attractive luxury watches as a valuable asset and consumers' desire for luxury goods from a number of international brands are bolstering the market for high-end watches and are expected to hasten the rate of market expansion.
- The watches segment outperformed the segment of collectibles such as jewellery, handbags, wine, art and furniture over a period of ten years from 2013 to 2022, growing at an average annual rate of 7%. It increased in value by 27% from year 2020 to 2022.
- As a key segment of the worldwide luxury watch market, Swiss watch exports witnessed a record-breaking year in CY 2022. The year's export sales totalled CHF23.7 billion, an all-time high record with a year-on-year growth rate of 11.6%
- The luxury products market in India is expected to grow 3.5 times its current size and reach USD 200 billion by the year 2030, driven by an increase in the number of UHNWIs (net assets of USD 30 million or more), growing entrepreneurship, a strong middle class, increased e-commerce penetration and demand from Tier II and Tier III cities.

KEY PLAYERS



PEER PERFORMANCE

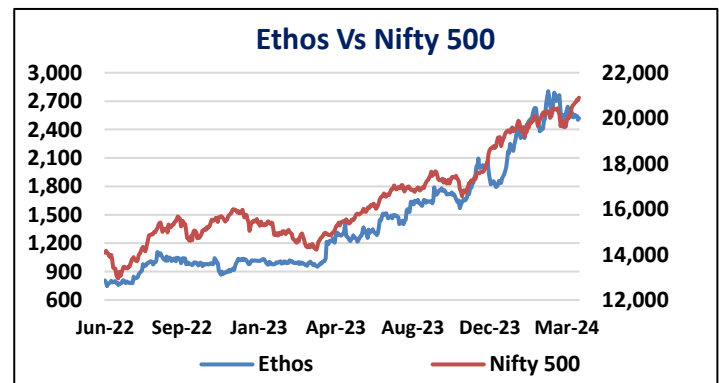
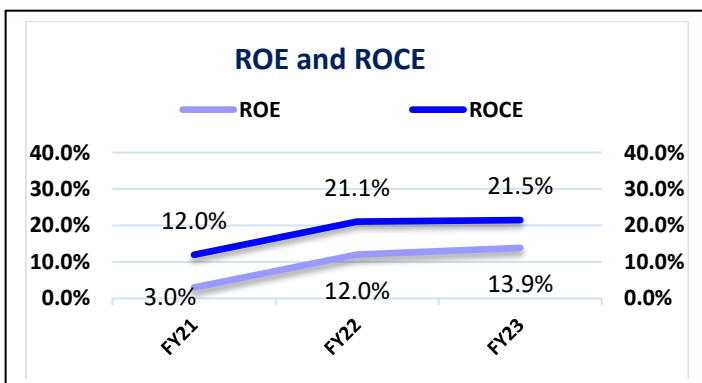
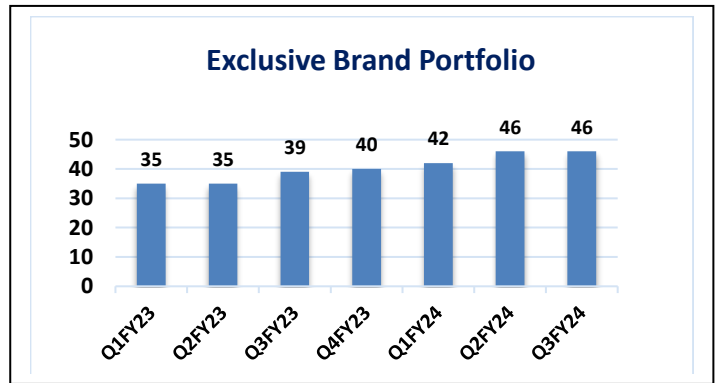
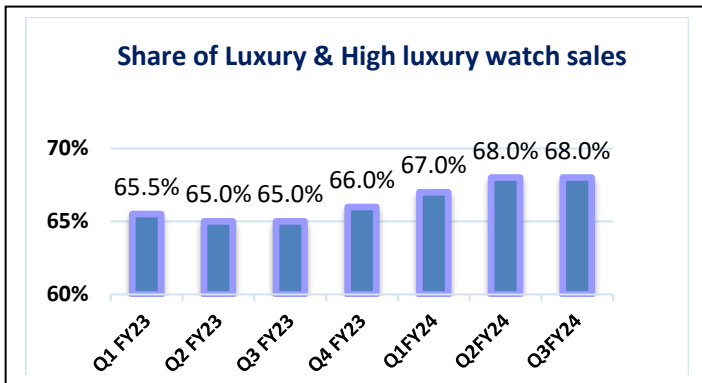
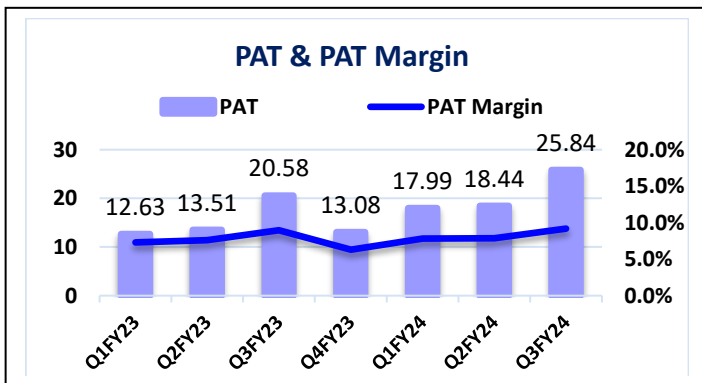
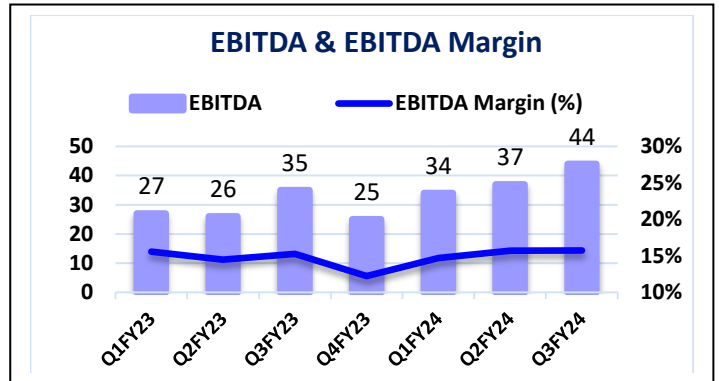
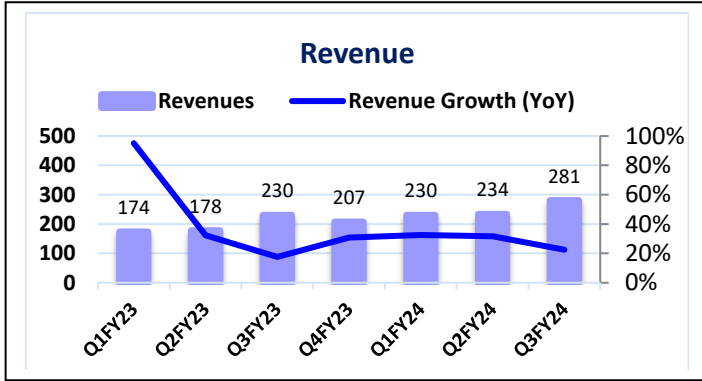
(₹ Cr)

Particulars	Ethos	Titan
Market Cap	6128	329413
Net Sales	789	40575
EBITDA	140	4882
PAT	60	3274
EPS(₹)	25.61	36.61
EBITDA MARGIN %	15	12
PAT MARGIN %	7.6	8.0
ROCE %	17.4	25.1
ROE %	13.8	30.8
P/E TTM	81.4	95.5
P/B TTM	9.17	26.6
EV/EBITDA	37.9	60.3
Dividend Yield %	0.00	0.27
MCap/ Sales TTM	2.62	6.72

Source: Company, Hem Securities Research.



STORY IN CHARTS





INVESTMENT RATIONALE:

- With 60 locations distributed over 23 Indian cities, Ethos is currently the largest structured luxury watch retailer in the nation. The majority of the well-known international brands, including Omega, Rolex, Rado, IWC, and Bulgari, are retailed by the corporation. Additionally, the business has exclusive distribution agreements with a number of brands, such as Oris, Bovet, H. Moser & Cie, and Jacob & Co.
- Ethos is seeing more traction than anticipated in Tier 2/3 cities as people's knowledge of quality watches rises. With the aid of money raised, Ethos intends to expedite its strategy to expand its reach to Tier 2/3 cities.
- With exclusive partnerships, content-led marketing, and pan-India omnipresence, it aims to grow its ~21% market share in the luxury watch class.
- Positively, the company has projected a CAGR of 25% revenue growth over the next few years, driven by the introduction of new and expanded exclusive brand portfolios, the gradual expansion of CPO, and the introduction of new categories, including the luggage (Rimova) and jewellery businesses.
- The company's overall financial risk profile has been gradually improving due to steady top line growth and ongoing strong profitability. The company reported operating margin of 15.7% and net profit margin of 7.6% in FY2023, up from 14.1% and 4.0% of operating margin and net profit margin, respectively, in FY2022, helped by high value-added sales and economies of scale.
- Over FY20–H1FY24, there was a significant increase in ASP from Rs84K to Rs187K due to a deliberate withdrawal from lower price points. The majority of this correction has been made, and Ethos anticipates a modest increase in ASP going forward.
- The lack of mechanical watch technicians is impeding expansion. Ethos has an excellent training programme for this. In order to receive specialized training from the brands, it even sends its specialists abroad.
- A recent successful QIP raised Rs 175 Cr, adding to the cash balance of Rs 180 Cr as of H1FY24, providing a strong financial position for expansion.

RISK FACTORS:

- There are shops that compete with one another. For instance, there are two luxury watch retailers in Bandra: Time Avenue and Watches of Switzerland. These boutiques concentrate on luxury watches.
- Risk of fluctuating demand amid ongoing global scenario.
- Increased competition intensity, a slowdown in the luxury and premium segment, and increased currency exchange rate volatility (CHF/INR).
- Geographic expansion challenges
- A disrupted supply of premium and luxury watches and insufficient inventory maintenance may jeopardize the client demands of Ethos.

COMPANY RECAP

- Ethos (formerly, Kamla Retail Ltd), a subsidiary of KDDL, was incorporated in 2007. The company retails luxury wrist watches, and currently operates 46 premium retail stores across India, including at airports in Delhi, Mumbai, and Bengaluru. It sells more than 60 international luxury watch brands, including Rolex, Omega, TAG Heuer, Carl F Bucherer, Longines, Cartier, Breitling, Breguet, Swatch, Michael Kors, Rado, Versace, Victorinox, Titioni, Favre Leuba, and Corum. In addition to their chain of 60 physical retail stores in 17 cities across India, Ethos offers an omni-channel experience to its customers through website and social media platforms. Its website "www.ethoswatches.com" is India's largest website for premium and luxury watches in terms of the number of brands and watches offered.
- Ethos was promoted by KDDL in 2003. Ethos' promoter is KDDL, which makes watch dials. Ethos has benefitted from its promoter's ie KDDL's, longstanding relationships with luxury watch brands. Since 1983, KDDL undertook export of watch dials, thereby gaining valuable insights in the watch industry, which has been instrumental in building strong relationships with the brands Ethos retails.
- Yashovardhan Saboo the MD of the company. He is B.A. (Hons.) and MBA from IIM, Ahmedabad. He started his career in 1980 as Director of Groz-Beckert Saboo Limited, Chandigarh and was the Managing Director of the company from 1991 to 1993. In 1983, he set up Kamla Dials and Devices Limited (now KDDL Limited) as Managing Director of the Company. In 2003, he set up Ethos. In 2006, he set up the Precision Stamping division, EIGEN Engineering, at Bangalore. He has been conferred with "UdyogRatna" Award from PHDCCI in 2005 for valuable contribution to the economic development of Himachal Pradesh.



ANNUAL PERFORMANCE

Financials & Valuations						
Income Statement	(₹ Cr)					
	2020	2021	2022	2023	2024E	2025E
Revenue	457.85	386.57	577.28	788.53	1064	1309
YoY change (%)	3.23%	-15.57%	49.33%	36.59%	30%	23%
Total Expenditure	401.80	343.98	505.57	668.39	894	1100
EBITDA	56.05	42.59	71.71	120.14	170	210
YoY change (%)	54.95%	-24.01%	68.38%	67.53%	51%	23%
EBITDA Margin	12.24%	11.02%	12.42%	15.24%	16%	16%
Other Income	2.32	16.43	12.78	14.85	8	10
Interest	23.62	19.91	21.48	20.18	16	18
PBDT	34.75	39.11	63.01	114.81	162	201
Depreciation	34.64	32.52	31.51	34.63	45	55
Profit Before Taxation & Exceptional Items	0.11	6.59	31.50	80.18	117	146
Profit Before Tax	-0.22	6.72	31.53	80.68	117	146
Provision for Tax	2.24	1.97	8.14	20.38	29	36
Profit After Tax	-2.46	4.76	23.39	60.30	88	110
YoY change (%)	-118.43%	-293.06%	391.63%	157.82%	48%	25%
EPS	-1.35	2.61	12.26	25.82	35.92	44.85

Source: Company, Hem Securities Research.

Balance Sheet					
Y/E March	(₹ Cr)				
	2019	2020	2021	2022	2023
Share Capital	17	18	18	19	23
Reserves	115	134	139	213	608
Borrowings	0	0	0	0	0
Other Liabilities	77	175	140	161	121
Total Liabilities & Equity	300	427	396	507	880
Fixed Assets	22	128	112	129	197
CWIP	5	1	4	0	4
Investments	0	4	4	6	7
Other Assets	273	294	275	373	672
Total Assets	300	427	396	507	880

Source: Company, Hem Securities Research.



Ratios				
Y/E March (Basic (INR)	2020	2021	2022	2023
Margin Ratios				
PBIDTM (%)	12.97	15.17	14.56	17.05
EBITM (%)	5.42	6.77	9.12	12.67
Pre Tax Margin(%)	0.27	1.63	5.41	10.12
PATM (%)	0.01	1.2	4.05	7.58
CPM(%)	7.56	9.6	9.49	11.96
Efficiency Ratio				
ROA (%)	0.01	1.15	5.27	8.73
ROE (%)	0.03	3	12.03	13.86
ROCE (%)	11.36	11.96	21.05	21.48
Asset Turnover(x)	1.28	0.96	1.3	1.15
Inventory Turnover(x)	2.16	1.86	2.58	2.67
Debtors Turnover(x)	53.45	35.85	66.5	138.83
Fixed Asset Turnover (x)	4.42	2.34	3.2	3.47
Sales/Working Capital (x)	4.69	3.67	3.41	1.63
Receivable days	6.83	10.18	5.49	2.63
Inventory Days	169.07	196.56	141.54	136.51
Payable days	80.37	96.97	71.65	62.03
Valuations Ratios				
EV/Net Sales(x)	0.18	0.13	0.07	2.57
EV/EBITDA(x)	1.42	0.87	0.47	15.09
EV/EBIT(x)	3.39	1.95	0.74	20.3
Financial Stability Ratios				
Total Debt/Equity(x)	0.5	0.33	0.26	0.01
Current Ratio(x)	1.55	1.7	2.02	4.21
Quick Ratio(x)	0.32	0.38	0.52	1.96
Interest Cover(x)	1.05	1.32	2.45	4.96

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
10-April-2024	BUY	2960

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Name of the Research Analyst: Madhur Mandhana

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3.	Research Analyst or his/her relative or HSL has any other material conflict of interest at the time of publication of the Research Report	No
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9.	HSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10.	Research Analyst or HSL has been engaged in market making activity for the subject company(ies)	No

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