



Duration: 6-9 Months

| CMP (Rs) | Target (Rs) | Potential Upside (%) |
|----------|-------------|----------------------|
|----------|-------------|----------------------|

|      |      |     |
|------|------|-----|
| 2343 | 2577 | 10% |
|------|------|-----|

**MARKET DATA**

|               |        |
|---------------|--------|
| No. of Shares | 2.3 Cr |
|---------------|--------|

|                    |          |
|--------------------|----------|
| Market Cap (Rs Cr) | Rs. 5734 |
|--------------------|----------|

|                    |           |
|--------------------|-----------|
| 52-week High / Low | 3040/1200 |
|--------------------|-----------|

|          |        |
|----------|--------|
| BSE Code | 543532 |
|----------|--------|

|          |          |
|----------|----------|
| NSE Code | ETHOSLTD |
|----------|----------|

**Why Ethos Ltd?**

- ✓ **Encouraging Growth Opportunities**
- ✓ **Company-specific Triggers**

**About the Company**

Established in 2003, Ethos Ltd is a prominent player in India's luxury and premium watch retail industry. With a 20% market share in the luxury segment and 13% in the premium segment, it stands as one of the largest retailers in the country. As a subsidiary of KDDL, Ethos operates across 23 cities in India, boasting over 60 stores. The company has embraced an omnichannel approach, reaching customers through its websites ([www.ethoswatches.com](http://www.ethoswatches.com) & [www.secondmovement.com](http://www.secondmovement.com)) and various social media platforms. Offering a diverse range of products, Ethos caters to over 60 premium and luxury watch brands, including 46 exclusive brands available solely at Ethos outlets.

**Investment Rationale**

- A. Structural growth trend in the Luxury space:** India is at the cusp of a luxury demand boom. The Luxury market in India is expected to expand 5x in the next decade as the number of affluent consumers in the country continues to multiply with higher aspiration and disposable incomes.
- B. Foraying into the fast-growing Certified Pre-Owned (CPO) segment:** The company is entering into this turf due to the shortage of new luxury watches. We believe this is a step taken in the right direction. CPO is an asset-light model. It has lower Capex and requires a lower working capital cycle of 50-60 days vs. 140-150 days for new watches. As a result, it has a higher ROCE of 20%+ vs. 15-18% for new watches.
- C. Increasing share of high-margin exclusive brands in the portfolio** is expected to drive the overall margins profile, given that these brands command 2x gross margins (~35-40%) compared to non-exclusive brands. As of now, exclusive brands contribute ~ 30% to the sales, a figure that is projected to rise in the coming years.
- D. Though the company is at a nascent stage in this segment, it is staging for future growth and it could be its next growth driver.** Diversifying into fast-growing other luxury segments such as Luggage (Rimowa) and Jewellery (Messika and Bulgari)
- E. Room for margin and ROCE expansion:** We expect the company's EBITDA margin to expand by 100bps to 15.6% by FY26E from 14.5% in FY23. This will be led by 1) Improving product mix – gradual increase in the ASP and exclusive brand portfolio, 2) Store expansion and operating leverage, and 3) Increasing CPO business further improving the company's ROCE from 16% in FY23 to 20% in FY26E.
- F. Recommendation:** We recommend a BUY rating on the stock with a near-term TP of Rs 2577/share, implying an upside of 10% from the CMP.

**Financial Summary**

| Y/E March | Sales (Rs Cr) | EBITDA (Rs Cr) | PAT (Rs Cr) | EPS (Rs) | P/E (X) | ROE (%) | ROCE (%) | EV/EBITDA (X) |
|-----------|---------------|----------------|-------------|----------|---------|---------|----------|---------------|
| FY23      | 2,484         | 316            | 240         | 6.3      | 67.1    | 15      | 16       | 48.6          |
| FY24E     | 2,820         | 498            | 384         | 10.5     | 40.6    | 21.9    | 22.1     | 30.4          |
| FY25E     | 3,214         | 595            | 460         | 12.5     | 33.9    | 22.9    | 23.4     | 25.1          |
| FY26E     | 3,664         | 694            | 538         | 14.7     | 29      | 23.4    | 24.1     | 21.1          |

 Source: Axis Securities; CMP as on 3<sup>rd</sup> May, 2024

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