

Growth Story Remains Intact; Maintain BUY
Est. Vs. Actual for Q3FY25: Revenue – **BEAT**; EBITDA – **MISS**; PAT – **MISS**
Changes in Estimates post Q3FY25
FY26E/FY27E – Revenue: 0%/-3%; **EBITDA:** -5%/-6%; **PAT:** -6%/-8%

Recommendation Rationale

- **Robust Results:** Ethos delivered strong topline growth of ~32% YoY in Q3FY25, with 9MFY25 growth at 26%. SSG improved by 400bps to 23.1% in Q3FY25. The share of its exclusive brand portfolio stood at 29.7% in Q3. Management highlighted that the share of luxury and high-luxury watches increased from 68% to 71% over 9MFY25, while ASP for 9MFY25 rose by 11.2% YoY to Rs 2,07,513.
- **Margins pressure:** EBITDA grew by 28% YoY to 57%, with EBITDA margins at 15.4%, down 42bps YoY, due to gross margin contraction and higher costs related to increased manpower for new store additions and rent for newly opened stores that are still in the nascent stages of sales.
- **The structural story remains strong:** Ethos's promising future is supported by its robust and consistent performance over the last several quarters, driven by 1) sustained strong structural demand in the premium and luxury watch segment, 2) planned store expansion across the watch and lifestyle categories, 3) entry into the fast-growing CPO segment, 4) increasing share of high-margin exclusive brands, and 5) diversification and scaling of another luxury segment—luggage and jewellery. Additionally, the company has maintained its long-term growth target of achieving 10x revenue growth over the next decade.

Sector Outlook: Positive
Company Outlook & Guidance: We have cut our FY2 6/27E EPS estimates to account for higher operating costs on account of new store openings.

Current Valuation: 40xDec-26 EPS (Earlier Valuation: 45xSep-26 EPS)

Current TP: Rs 3,070/share (Earlier TP: Rs 3,450/share).

Recommendation: We maintain our **BUY** rating on the stock

Financial Performance: Ethos delivered strong topline performance despite a challenging environment, with revenue growth of ~32% YoY (26% in 9MFY25). SSG improved by 400bps to 23.1% in Q3FY25. EBITDA grew by 28% YoY to Rs 57 Cr, with EBITDA margins at 15.4%, down 42bps YoY, due to gross margin contraction and higher costs associated with increased manpower for new store additions and rent for newly opened stores, which are still in the nascent stages of sales. The company's PAT stood at Rs 27 Cr, up 7% YoY.

Key Financials (Consolidated)

(Rs Cr)	Q3FY25	QoQ (%)	YoY (%)	Axis Est.	Variance (%)
Net Sales	370	24.5	31.5	366	1.2
EBITDA	57	35.3	28.0	58	(2.3)
EBITDA Margin (%)	15.4	123 bps	-42 bps	16.0	-55 bps
Net Profit	29	38.8	15.6	33	(10.0)
EPS (Rs)	12.0	38.8	15.6	13.4	(10.0)

Source: Company, Axis Research

(CMP as of 14th February 2025)

CMP (Rs)	2449
Upside /Downside (%)	25%
High/Low (Rs)	3514/2060
Market cap (Cr)	5996
Avg. daily vol. (6m)Shrs'000.	52.4
No. of shares (Cr)	2.4

Shareholding (%)

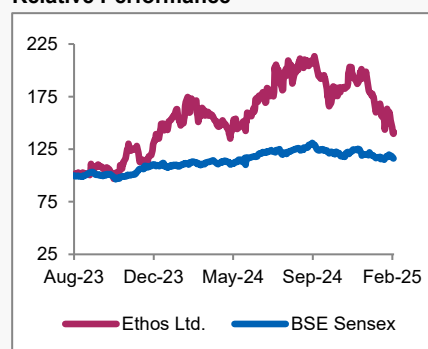
	Jun-24	Sep-24	Dec-24
Promoter	54.7	51.2	50.8
FII's	11.2	12.3	12.6
MFs / UTI	11.9	13.7	14.4
Banks / FI's	0.0	0.0	0.0
Others	22.2	22.8	22.2

Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	1,245	1,721	2,350
EBITDA	192	286	389
Net Profit	100	156	220
EPS, Rs	40.8	63.7	89.8
PER, x	69	44	32
EV/EBITDA, x	35	24	17
ROE, %	10	14	16

Change in Estimates (%)

Y/E Mar	FY26E	FY27E
Sales	0%	-3%
EBITDA	-5%	-6%
PAT	-6%	-8%

Relative Performance


Source: Ace Equity, Axis Securities

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Valuation & Outlook:

Ethos' promising future is supported by its robust and consistent performance over recent quarters, driven by 1) Sustained strong demand in the premium and luxury watch market, 2) Expansion into the fast-growing CPO segment, 3) Increasing share of high-margin exclusive brands, 4) Diversification into the growing luxury segments of luggage and jewellery, and 5) Significant potential for margin and ROCE expansion. Given this solid investment thesis, we expect Ethos to achieve a strong revenue CAGR of 32% and PAT growth of 34% over FY24-27E. After a sharp decline in the stock price (down ~27% from Dec-24), the company is trading at 41x/30x its FY26/27E EPS at the current market price. With enhanced visibility in earnings growth and a stronger return profile, the stock presents an attractive opportunity within the Smallcap space. **We maintain our BUY rating, valuing the company at 40x Dec-26 EPS, which results in a target price of Rs 3,070 per share, implying an upside of 25% from the current market price.** Key risk – Increase in GST for luxury watches from 18% to 28%.

Key Highlights

- **Strong Store Addition Despite Challenges:** The implementation of the Graded Response Action Plan (GRAP) for pollution control in Delhi/NCR was in effect for 52 days. However, its impact on the construction and renovation of new boutiques extended to 75 days due to the intermittent imposition and lifting of restrictions, which affected store openings. Despite these challenges, the company added 5 stores in Q3FY25, taking the total store count to 73. Management highlighted that the company remains focused on its expansion plans and aims to open six more boutiques by the end of FY25.
- **New Brands Expansion:** Ethos added 3 new exclusive brands (2 watch brands and 1 luggage brand) to its portfolio in Q3FY25, bringing the total exclusive brand additions since April to 6. The share of the exclusive brands portfolio stood at 29.7% in Q3FY25 and 29.5% in 9MFY25.
- **Luxury Luggage Portfolio Strengthening:** In a move to further strengthen its luxury luggage portfolio, Ethos signed its second luxury luggage brand, Zero Halliburton.
- **About Zero Halliburton:** Zero Halliburton is an iconic American brand renowned for its premium aluminium luggage and cases. Founded in 1938, the brand gained fame for its durable, aerospace-inspired designs, originally created to withstand extreme conditions. Its sleek, hard-shell suitcases have been favoured by business travellers, Hollywood filmmakers, and even NASA, which used Zero Halliburton cases to transport moon rocks from the Apollo missions.

Key Risks to Our Estimates and TP

- Higher volatility in currency exchange rate (CHF/INR),
- Slowdown in the luxury & premium segments.
- Increase in the competitive intensity.
- Increase in GST on luxury goods.

Change in Estimates

	Old Est.		Revised Est.		% Revision	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Revenue	1,721	2,350	1,713	2,290	0%	-3%
EBITDA	286	389	273	365	-5%	-6%
PAT	156	220	146	201	-6%	-8%
EPS	63.7	89.8	59.8	82.3	-6%	-8%

Source: Company, Axis Securities

Results Review

(Rs Cr)	Q3FY24	Q2FY25	Axis Est.	Q3FY25	% Change (YoY)	% Change (QoQ)	Var (%) Axis Sec Est.
Net Sales	281	297	366	370	31.5	24.5	1.2
Gross Profit	84	90	109	108	28.7	20.2	(1.0)
Gross Margin (%)	29.8	30.2	29.8	29.1	-65 bps	-103 bps	-65 bps
Employee Expenses	16	21	21	24	48.9	17.8	14.6
Other Expenses	23	27	29	26	15.5	(1.6)	(9.8)
EBITDA	45	42	58	57	28.0	35.3	(2.3)
EBITDA Margin (%)	15.8	14.2	16.0	15.4	-42 bps	123 bps	-55 bps
Oth. Inc	6	6	6	6	(7.9)	(6.2)	(10.6)
Interest	4	5	5	5	27.9	13.6	8.2
Depreciation	13	15	16	17	33.7	11.7	6.3
Share of profit from associates	0	(0)		(0)			
PBT	34	29	44	41	18.2	41.8	(8.3)
Tax	9	7	12	11	25.8	50.5	(3.3)
PAT	26	21	33	29	15.6	38.8	(10.0)
EPS	10.4	8.7	13.4	12.0	15.6	38.8	(10.0)

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E Mar	FY24	FY25E	FY26E	FY27E
Net sales	999	1,266	1,713	2,290
Growth, %	26.7	26.7	35.3	33.7
Total income	999	1,266	1,713	2,290
Raw material expenses	(698)	(880)	(1,179)	(1,568)
Employee expenses	(70)	(91)	(124)	(170)
Other Operating expenses	(79)	(99)	(137)	(187)
EBITDA (Core)	152	195	273	365
Growth, %	32.6	28.8	39.4	33.8
Margin, %	15.2	15.4	15.9	15.9
Depreciation	(49)	(63)	(75)	(87)
EBIT	103	133	198	277
Growth, %	29.2	28.9	48.8	40.4
Margin, %	10.3	10.5	11.5	12.1
Interest paid	(16)	(19)	(23)	(28)
Other Income	24	25	22	21
Non-recurring Items	-	-	-	-
Pre-tax profit	111	138	197	271
Tax provided	(28)	(35)	(50)	(69)
Profit after tax	83	103	146	201
Growth, %	38.1	23.4	42.4	37.7
Net Profit (adjusted)	83	103	146	201
Unadj. shares (Cr)	2.4	2.4	2.4	2.4
Wtdavg shares (Cr)	2.4	2.4	2.4	2.4

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E Mar	FY24	FY25E	FY26E	FY27E
Cash & bank	345	335	325	336
Marketable securities at cost	-	-	-	-
Debtors	16	20	27	36
Inventory	440	557	754	1,008
Other current assets	63	63	63	63
Total current assets	864	975	1,169	1,443
Investments	25	25	25	25
Gross fixed assets	278	358	428	498
Less: Depreciation	(40)	(102)	(177)	(265)
Add: Capital WIP	-	-	-	-
Net fixed assets	238	256	251	234
Non-current assets	32	32	32	32
Total assets	1,171	1,299	1,488	1,745
Current liabilities	258	283	326	382
Provisions	2	2	2	2
Total current liabilities	260	286	329	384
Non-current liabilities	26	26	26	26
Total liabilities	287	312	355	411
Paid-up capital	24	24	24	24
Reserves & surplus	859	962	1,109	1,310
Shareholders' equity	884	987	1,133	1,334
Total equity & liabilities	1,171	1,299	1,488	1,745

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Mar	FY24	FY25E	FY26E	FY27E
Profit Before Tax	111.3	138.1	196.7	270.8
Adjustments for :				
Depreciation and Amortization Expenses	48.7	62.7	74.9	87.2
Write off / loss on sale of property, plant & equipment	0.1			
Interest Paid	16.0	19.2	23.1	27.7
Effect of Exchange rates on the translation of operating cash flows	0.0			
Profit on the deletion of leased assets				
Rent Recession				
Loss / (Profit) on Sale of Assets	(0.6)			
Bad Debts Written Off	-			
Provision for Bad and Doubtful Deb	(1.7)			
Share of profit of joint venture	(0.7)			
Share options lapsed	-			
Unrealised foreign exchange gain	(0.5)			
Rent waiver on lease liabilities	-			
Gain on termination of lease contracts.	(0.1)			
Allowance for doubtful debts/(written back)	0.0			
Allowance for doubtful advances/recoverable	-			
Interest received	(18.3)			
Advances/deposits / Bad debts written off	0.4			
Other	(2.5)			
Operating Profit Before Working Capital Changes	152.3	220.0	294.7	385.6
Adjustments for :				
(Increase) in loans	0.1			
(Increase) in other financial assets	(5.1)			
Trade receivables	(9.6)	(4.2)	(7.0)	(9.0)
Other financial assets	7.6			
(Increase) in inventories	(99.8)	(117.4)	(196.7)	(254.3)
Increase in provisions	1.1			
Trade Payables	0.9	25.6	42.9	55.5
Increase / (Decrease) in Non-Current Liabilities	10.2			
Increase / (Decrease) in Current Liabilities	1.0			
(Increase) / Decrease in Non-Current Assets				
(Increase) / Decrease in Current Assets				
Cash Flow Generated from Operations	58.7	124.1	133.9	177.8
Direct taxes paid	(27.9)	(35.4)	(50.3)	(69.3)
A) Net Cash Flow from Operating Activities	30.8	88.8	83.6	108.5
B) CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of PPE and intangible assets	(39.4)	(80.0)	(70.0)	(70.0)
Proceeds on the sale of PPE and intangible assets	7.9			
Purchase of Investments	(1.0)			
Investment in bank deposits (having an original maturity of more than three months)	(83.7)			
Others	(18.4)			
Interest received	11.9			
Net Cash Used in Investing Activities	(122.8)	(80.0)	(70.0)	(70.0)
C) CASH FLOW FROM FINANCING ACTIVITIES				
Proceeds from the issue of equity share capital (including premium)	175.0			
Proceeds of Long-Term Borrowings (Net)	0.3			
Share issue expenses	(5.4)			
(Repayment) of LONG long-term borrowings	(1.1)			
Proceeds from/of other current borrowings (net)	(0.4)			
repayments of other current borrowings (net)				
Payment of the principal portion of lease liabilities	(28.1)			
proceeds from the repayment of current borrowings				
Interest paid on lease liabilities	(15.1)	-	-	-
Interest expense paid	(0.4)	(19.2)	(23.1)	(27.7)
Net Cash Used in Financing Activities	124.7	(19.2)	(23.1)	(27.7)
Net Increase/ (Decrease) in Cash and Cash Equivalents	32.7	(10.5)	(9.5)	10.8
Cash and cash equivalents as of 1st April	27.9	60.6	50.1	40.6
Cash and cash equivalents as of 31st March	60.6	50.1	40.6	51.5

Source: Company, Axis Securities

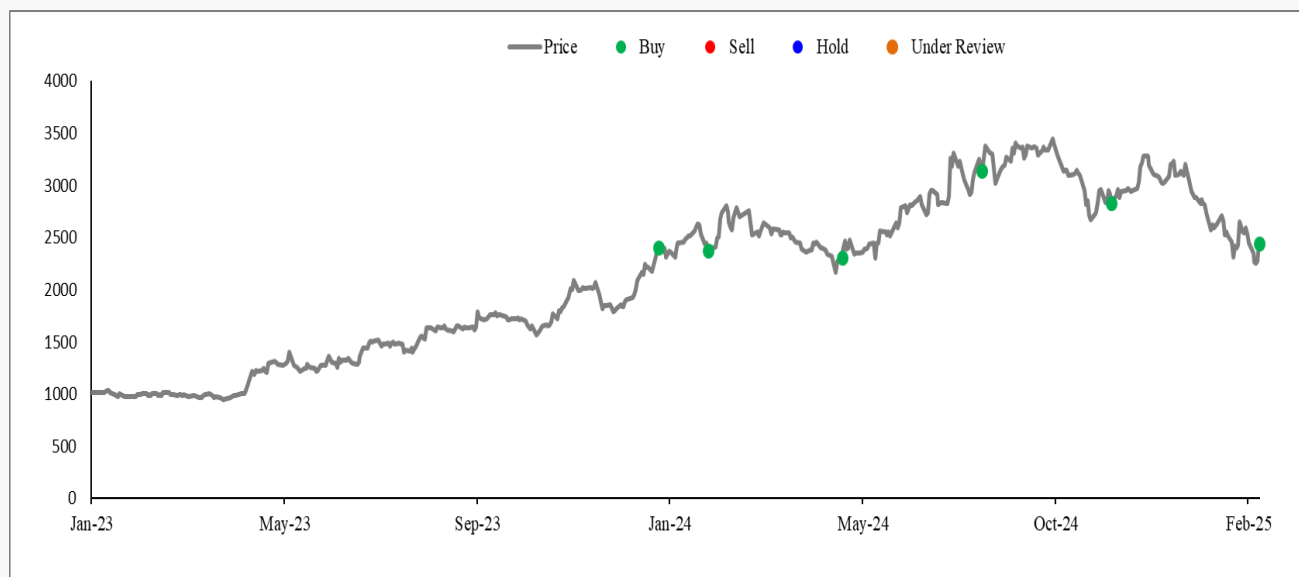
Ratio Analysis

(%)

Y/E Mar	FY24	FY25E	FY26E	FY27E
Per Share data				
EPS (INR)	34.0	42.0	59.8	82.3
Growth, %	28.1	23.4	42.4	37.7
FDEPS (INR)	34.0	42.0	59.8	82.3
CEPS (INR)	53.9	67.6	90.4	117.9
CFPS (INR)	5.3	18.4	15.7	24.4
Return ratios				
Return on assets (%)	9.7	9.9	12.1	14.2
Return on equity (%)	9.4	10.4	12.9	15.1
Return on capital employed (%)	12.7	12.6	15.6	18.1
Turnover ratios				
Asset turnover (x)	1.8	1.8	2.1	2.3
Sales/Total assets (x)	1.0	1.0	1.2	1.4
Sales/Net FA (x)	4.5	5.1	6.8	9.5
Working capital/Sales (x)	0.3	0.3	0.3	0.3
Receivable days	5.7	5.7	5.7	5.7
Inventory days	160.6	160.6	160.6	160.6
Payable days	41.3	41.5	41.7	41.7
Working capital days	95.3	102.9	110.3	115.6
Liquidity ratios				
Current ratio (x)	3.4	3.4	3.6	3.8
Quick ratio (x)	1.6	1.5	1.3	1.1
Interest cover (x)	6.4	6.9	8.6	10.0
Total debt/Equity (%)	0.2	0.1	0.1	0.1
Valuation				
PER (x)	72.0	58.3	41.0	29.8
PEG (x) - y-o-y growth	2.6	2.5	1.0	0.8
Price/Book (x)	6.8	6.1	5.3	4.5
EV/Net sales (x)	5.8	4.6	3.4	2.5
EV/EBITDA (x)	38.2	29.7	21.3	15.9
EV/EBIT (x)	56.2	43.7	29.4	20.9

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
14-May-24	BUY	2,700	Result Update
16-Aug-24	BUY	3,600	Result Update
11-Nov-24	BUY	3,450	Result Update
17-Feb-25	BUY	3,070	Result Update

Source: Axis Securities Research

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BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.