

Titan Company (TITIND)

Healthy festive season to perk up revenues

In its quarterly preview of Q3FY19, the management of Titan highlighted that healthy revenue growth was witnessed across all its divisions, signalling robust customer demand in the festive season of Diwali-Dussehra. The jewellery division continued to gain market share driven by rapid store expansion and strong same store sales growth (SSSG). The management now expects the jewellery division to exit FY19 with revenue growth of 22% (vs. earlier guidance of ~20%). The watches division continued on its healthy trajectory driven by launch of new collections (especially in the smart watch category).

FY19 jewellery revenue guidance upgraded to 22% vs. 20%

Before the start of the financial year, the management had guided for ~25% revenue growth for the jewellery division in FY19E. Titan had to trim its guidance to 20% owing to lower than anticipated performance in Q1FY19. However, with visibility of green shoots in Q2FY19 (revenue growth of 29%) and positive trends witnessed in Q3FY19, the management has guided at 22% revenue growth for FY19E (translating into implied revenue growth of 30% YoY in H2FY19E vs. 17% in H1FY19). Capitalising on a seasonally strong quarter, Tanishq witnessed robust SSSG in Q3FY19 with sustained market share gains. Furthermore, the store expansion plans are well on track with Titan adding 24 Tanishq stores on a net basis for 9MFY19. Tanishq launched the 'Utsav' collection (based on heritage and Antique gold jewellery) which received healthy traction. Tanishq also launched the 'Preen' collection (high value diamond studded jewellery). The new collections are in line with Titan's strategy to scale up its share of high value studded jewellery segment from 30% in FY18 to 50% by FY23.

Product launches in smart watches segment to support revenue growth

After five consecutive years of single digit revenue growth, the watches division registered a turnaround in FY19E with 16% revenue growth and EBIT margins expanding ~600 bps YoY to 17% in H1FY19. The watches segment continued on its healthy trajectory for Q3FY19, driven by launch of new products, with online channel and modern retail outperforming the traditional channels of sales in Q3FY19. The division strengthened its smart watches product portfolio with launch of products such as, 'Reflex Wav', and 'SF Rush smart band'. The management expects the EBIT margin for the watches segment to be subdued in Q3FY19 owing to higher marketing spends. On a net basis, the division added five WOT stores, nine Fastrack stores and three Helios stores for 9MFY19.

Strong performance to sustain over long term; maintain BUY!

We anticipate H2FY19 revenue growth will be significantly better (vs. 17% growth in H1FY19) as Q3FY19 is predominantly expected to be driven by strong festive demand while Q4FY19 is expected to be supported by higher number of wedding dates. Capitalising on larger opportunities such as the wedding space (focus to enhance contribution from 35% in FY18 to 50% by FY23) and high value diamond studded jewellery has resulted in new customer addition and expansion of average ticket size. High asset turnover, coupled with positive operating leverage (driven by healthy SSSG) are expected to translate into 34% RoCE by FY21E from current 29%. We expect revenues and earnings to grow at a CAGR of 20% and 26% respectively, in FY18-21E. We reiterate our **BUY** rating on the stock with a revised target price of ₹ 1065 (42.0x FY21E EPS).

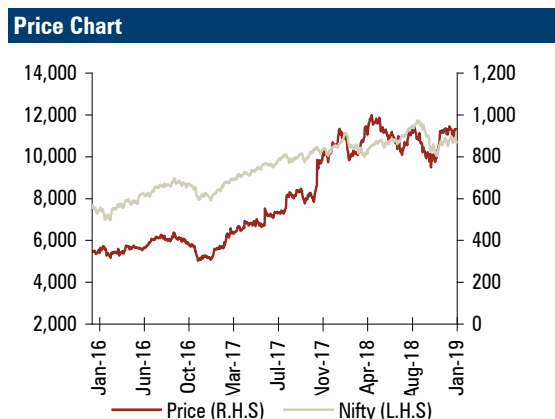
Rating matrix		
Rating	:	Buy
Target	:	₹ 1065
Target Period	:	12 months
Potential Upside	:	14%

What's changed?		
Target	Changed from ₹ 1000 to ₹ 1065	
EPS FY20E	Unchanged	
EPS FY21E	Introduced at ₹ 25.4	
Rating	Unchanged	

Key financials				
(₹ crore)	FY18	FY19E	FY20E	FY21E
Net Sales	16,120	19,520	23,349	27,816
EBITDA	1,645	2,108	2,662	3,227
Net Profit	1,130	1,441	1,849	2,255
EPS (₹)	12.7	16.2	20.8	25.4

Valuation summary				
	FY18	FY19E	FY20E	FY21E
P/E	73.7	57.8	45.0	36.9
Target P/E	83.7	65.6	51.2	41.9
EV to EBITDA	50.3	39.2	31.0	25.5
Price to book	16.4	13.5	11.3	9.4
RONW (%)	22.2	23.4	25.1	25.6
ROCE (%)	29.3	31.5	33.5	34.1

Stock data	
Particular	Amount
Market Capitalisation (₹ Crore)	83,274.3
Debt (FY18) (₹ Crore)	50.9
Cash (FY18) (₹ Crore)	675.8
EV (₹ Crore)	82,649.4
52 week H/L	1006 / 731
Equity Capital (₹ Crore)	88.8
Face Value (₹)	1



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Financial summary

Profit and loss statement ₹ Crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Total operating Income	16,119.8	19,520.0	23,348.9	27,815.9
Growth (%)	21.6	21.1	19.6	19.1
Raw Material Expenses	11,686.2	14,093.4	16,671.1	20,138.7
Employee Expenses	885.1	1,015.0	1,237.5	1,418.6
Mfg, Admin & selling Exps	1,903.8	2,303.4	2,778.5	3,031.9
Total Operating Expenditure	14,475.1	17,411.8	20,687.2	24,589.2
EBITDA	1,644.7	2,108.2	2,661.8	3,226.6
Growth (%)	42.3	28.2	26.3	21.2
Depreciation	131.4	158.6	180.2	201.3
Interest	52.9	48.3	44.9	43.3
Other Income	88.9	110.2	137.7	158.4
PBT	1,549.2	2,011.4	2,574.4	3,140.5
Exception items	16.7	0.0	0.0	0.0
Total Tax	427.9	583.3	736.3	895.0
Share of JV/Minority int	25.4	13.0	10.5	10.0
PAT	1,130.1	1,441.1	1,848.7	2,255.4
Growth (%)	58.8	27.5	28.3	22.0
EPS (₹)	12.7	16.2	20.8	25.4

Source: Company, ICICI Direct Research

Cash flow statement ₹ Crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
PAT	1,130.1	1,441.1	1,848.7	2,255.4
Add: Depreciation	131.4	158.6	180.2	201.3
(Inc)/dec in Current Assets	-1,443.9	-1,217.2	-1,460.2	-1,781.2
Inc/(dec) in CL and Provisions	205.2	348.8	537.4	696.8
Others	0.0	0.0	0.0	0.0
CF from operating activities	22.8	731.3	1,106.0	1,372.3
(Inc)/dec in Investments	382.7	-20.5	-27.7	-21.4
(Inc)/dec in Fixed Assets	-373.5	-253.5	-257.0	-237.9
(Inc)/dec in CWIP	108.7	13.0	0.0	9.1
Others	-50.3	0.0	0.0	0.0
CF from investing activities	67.6	-261.1	-284.7	-250.2
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	79.0	-28.1	-5.1	-4.6
Others	-330.4	-384.2	-643.6	-785.4
CF from financing activities	-251.4	-412.3	-648.7	-790.0
Net Cash flow	-161.0	57.9	172.6	332.2
Opening Cash	778.9	617.9	675.8	848.5
Closing Cash	617.9	675.8	848.4	1,180.7

Source: Company, ICICI Direct Research

Balance sheet ₹ Crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Liabilities				
Equity Capital	88.8	88.8	88.8	88.8
Reserve and Surplus	5,001.1	6,058.0	7,263.1	8,733.1
Total Shareholders funds	5,089.9	6,146.8	7,351.9	8,821.9
Total Debt	79.0	50.9	45.8	41.2
Deferred Tax Liability	(32.9)	(32.9)	(32.9)	(32.9)
Other long term liabilities	(1.8)	(1.8)	(1.9)	(1.9)
Total Liabilities	5,134.2	6,162.9	7,362.9	8,828.4
Assets				
Gross Block	1,558.1	1,811.6	2,068.7	2,306.5
Less: Accu Depreciation	230.0	388.6	568.8	770.1
Net Block	1,328.1	1,423.0	1,499.9	1,536.4
Capital WIP	43.4	30.4	30.4	21.3
Goodwill on Consolidation	123.0	123.0	123.0	123.0
Total Fixed Assets	1,494.5	1,576.4	1,653.2	1,680.7
Investments	58.7	79.2	106.9	128.3
Inventory	5,924.8	6,952.3	8,188.1	9,754.6
Debtors	295.7	347.6	396.6	472.5
Loans and Advances	994.4	1,132.2	1,307.5	1,446.4
Other Current Assets	-	-	-	-
Cash	617.9	675.8	848.5	1,180.7
Total Current Assets	7,832.8	9,107.9	10,740.7	12,854.2
Creditors	2,489.8	3,101.8	3,710.2	4,420.1
Other Current Liabilities	1,723.2	1,464.0	1,400.9	1,390.8
Provisions	141.1	137.0	129.0	126.2
Total Current Liabilities	4,354.0	4,702.8	5,240.2	5,937.0
Net Current Assets	3,478.8	4,405.1	5,500.6	6,917.2
Others Non Current Assets	102.2	102.2	102.2	102.2
Application of Funds	5,134.2	6,162.9	7,362.9	8,828.4

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Per share data (₹)				
EPS	12.7	16.2	20.8	25.4
Cash EPS	13.9	17.9	22.7	27.6
BV	57.3	69.2	82.8	99.4
DPS	2.6	3.7	6.2	7.6
Cash Per Share	7.0	7.6	9.6	13.3
Operating Ratios				
EBITDA Margin (%)	10.2	10.8	11.4	11.6
PBT Margin (%)	9.6	10.3	11.0	11.3
PAT Margin (%)	6.9	7.3	7.9	8.1
Inventory days	134.2	130.0	128.0	128.0
Debtor days	6.7	6.5	6.2	6.2
Creditor days	56.4	58.0	58.0	58.0
Return Ratios (%)				
RoE	22.2	23.4	25.1	25.6
RoCE	29.3	31.5	33.5	34.1
RoIC	29.9	32.0	34.2	34.7
Valuation Ratios (x)				
P/E	73.7	57.8	45.0	36.9
EV / EBITDA	50.3	39.2	31.0	25.5
EV / Net Sales	5.1	4.2	3.5	3.0
Market Cap / Sales	5.2	4.3	3.6	3.0
Price to Book Value	16.4	13.5	11.3	9.4
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.8	1.9	2.0	2.2
Quick Ratio	0.4	0.5	0.5	0.5

Source: Company, ICICI Direct Research

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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