

View: Robust revenue traction continues. Maintain Buy

Net revenues grew by 34.3% YoY to ₹ 56.7bn – came ahead of our estimate. Jewellery business reported a robust 36.8% sales growth mainly led by grammage growth of 20%. The segment benefited from strong growth in both plain and studded jewellery. The plain jewellery segment was driven by a large institutional order of ₹ 2bn. The studded jewellery contribution remained stable at 25%, indicates that the category also posted +35% growth during the quarter. Though margins in the jewellery business expanded during the quarter, overall margins declined due to high A&P spends in watch business. We believe the growth in jewellery category would continue, despite unfavorable base benefiting from new store additions and new customer acquisition. Further, Titan, being one of the largest players in the organized industry with attractive offerings, we believe that it would emerge as a clear winner of the shift from unorganised to organised. Furthermore, changing trend of buying jewellery for fashion instead of investment would enhance premiumization. We have revised our estimates upward to factor in Q3 performance. Upgrade to BUY with TP of ₹ 1,139 (48x FY21E).

Operating performance exceed our estimate

EBITDA grew 31.4% YoY to ₹ 5.8bn. A 70/80 bps decline in employee costs/ advertising expenses was offset by 70/110 bps increase in RM/ other expenses. Consequently, EBITDA margin contracted by 20bps to 10.3%. APAT increased 35% YoY to ₹ 4.2bn- beat estimates. In Q3, Titan made provision of ₹ 0.7bn for its investment in IL&FS. The cumulative provision has increased to ₹ 0.99bn vs total exposure of ₹ 1.45bn.

Segmental revenue performance was satisfactory

At segmental level, (1) Jewellery reported 36.8% YoY revenue growth to ₹ 48.9bn attributed to high customer demand in the festive season of Diwali-Dussehra and EBIT growth of 69.1% to ₹ 6.5bn. (2) Watches grew 18.8% to ₹ 6.4bn and EBIT fell 34.2% YoY to ₹ 544mn with 680 bps margin contraction (3) Eyewear jumped 39.7% YoY to ₹ 1.3bn and registered a loss of ₹ 15mn in Q3FY19 compared to loss of ₹ 44mn in Q3FY18. Going ahead we believe that the EBIT margins in Watch would remain ~15-16% while Jewellery business would post +12% EBIT margin.

Q3FY19 Result (₹ Mn)

Particulars	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	56,722	42,248	34.3	44,068	28.7
Total Expense	50,880	37,801	34.6	39,397	29.1
EBITDA	5,842	4,447	31.4	4,671	25.1
Depreciation	328	295	11.4	375	(12.5)
EBIT	5,514	4,153	32.8	4,296	28.3
Other Income	609	184	231.1	268	127.5
Interest	129	104	24.2	105	22.2
EBT	5,171	4,545	32.8	4,500	14.9
Tax	1,833	1,151	59.2	1,315	39.4
RPAT	3,339	3,394	(1.6)	3,185	4.8
APAT	4,162	3,082	35.0	3,144	32.4
			(bps)		(bps)
Gross Margin (%)	25.1	25.8	(66)	27.8	(271)
EBITDA Margin (%)	10.3	10.5	(23)	10.6	(30)
NPM (%)	5.9	8.0	(215)	7.2	(134)
Tax Rate (%)	35.4	25.3	1011	29.2	621
EBIT Margin (%)	9.7	9.8	(11)	9.7	(3)

CMP	₹ 992
Target / Upside	₹ 1,139 / 15%
BSE Sensex	36,469
NSE Nifty	10,831

Scrip Details

Equity / FV	₹ 888mn / ₹ 1
Market Cap	₹ 880bn
	US\$ 12bn
52-week High/Low	₹ 1,005/₹ 732
Avg. Volume (no)	2,609,140
NSE Symbol	TITAN
Bloomberg Code	TTAN IN

Shareholding Pattern Dec'18(%)

Promoters	52.9
MF/Banks/FIs	7.6
FIIIs	20.1
Public / Others	19.4

Valuation (x)

	FY19E	FY20E	FY21E
P/E	58.6	47.5	42.0
EV/EBITDA	42.4	34.3	29.3
ROE (%)	25.3	24.8	22.9
RoACE (%)	20.8	21.1	20.1

Estimates (₹ mn)

	FY19E	FY20E	FY21E
Revenue	192,256	226,927	262,096
EBITDA	20,942	25,915	30,328
PAT	15,033	18,532	20,971
EPS (₹)	16.9	20.9	23.6

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Exhibit 1: Segmental Performance

Revenue (₹ mn)	Q3FY19	Q3FY18	YoY %	Q2FY19	QoQ %
Jewellery	48,903	35,756	36.8	35,821	36.5
Watches	6,407	5,395	18.8	6,757	(5.2)
Eyewear	1,295	927	39.7	1,200	7.9
Others	372	219	69.8	330	12.8
EBIT (₹ mn)					
Jewellery	6,505	3,847	69.1	3,920	66.0
Watches	544	826	(34.2)	1,218	(55.4)
Eyewear	(15)	(44)	NA	(10)	NA
Others	(114)	(123)	NA	(165)	NA
EBIT Margin (%)					
Jewellery	13.3	10.8	250	10.9	240
Watches	8.5	15.3	(680)	18.0	(950)
Eyewear	(1.1)	(4.8)	NA	(0.8)	NA
Others	(30.6)	(56.1)	NA	(50.0)	NA

Source: DART, Company

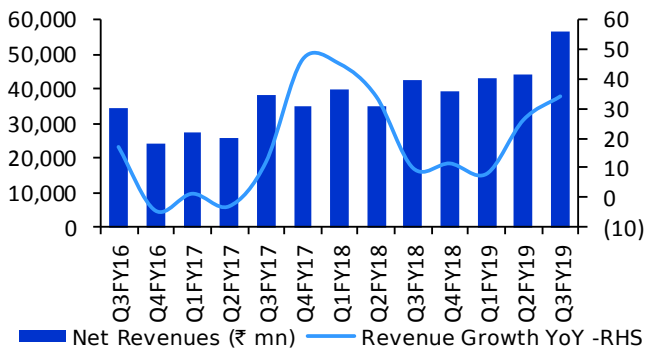
Conference call highlights

- Jewellery growth in January'19 is a little lower than what company expected, but March is expected to be better. Q4 is expected to be 20-22%. The company reaffirmed its guidance of 22% jewellery growth for FY19E.
- Gold grammage growth was 19.7%.
- Company expects to maintain watch margins at ~14-15% for FY19E.
- Titan maintains its guidance of 40 Tanishq stores by the end of FY19E (Net 24 added in 9MFY19E).
- Studded ratio was at 25%, in line with the previous year.
- Skinn, a fine French perfume is a ₹ 1bn brand . Company gained market share among 60-70 brands, however market share is just 7-8% of overall market indicating headroom for growth.
- Customers are used to price fluctuations, so there is not much impact of gold price increases.
- Jewellery EBIT margin was higher at 13.3% (+250 bps) led by higher gross margins, lower discount, inventory valuation loss recovered from the last quarter (₹ 180 mn), lower advertising spends in the quarter as well as operating leverage driven by strong revenue growth.
- Tax rate expected to be ~29% for FY19E.

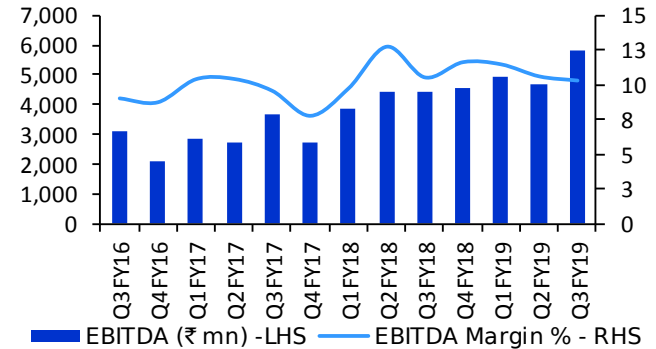
Exhibit 2: Change in estimates

₹ Mn	FY19E			FY20E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Net Revenue	192,256	183,874	4.6	226,927	223,350	1.6
EBITDA	20,942	20,490	2.2	25,915	26,510	(2.2)
EBITDA Margin (%)	10.9	11.1	-30 bps	11.4	11.9	-40 bps
APAT	15,033	14,692	2.3	18,532	18,981	(2.4)
EPS (₹)	16.9	16.5	2.3	20.9	21.4	(2.4)

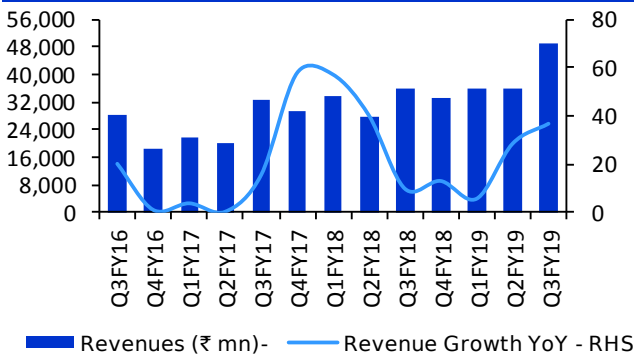
Source: DART, Company

Exhibit 3: Revenue Performance


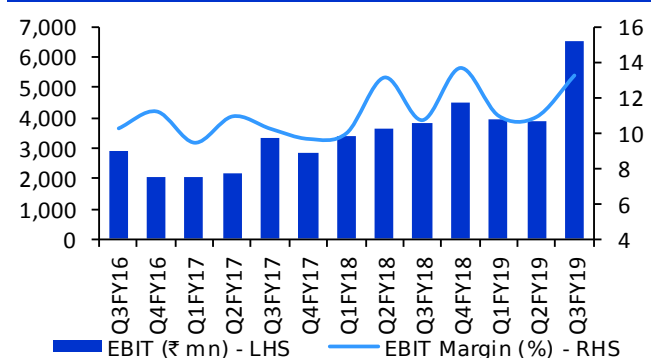
Source: DART, Company

Exhibit 4: EBITDA & EBITDA Margin


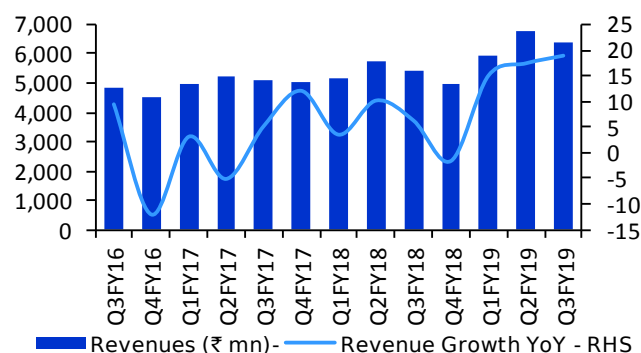
Source: DART, Company

Exhibit 5: Jewellery Revenue Performance


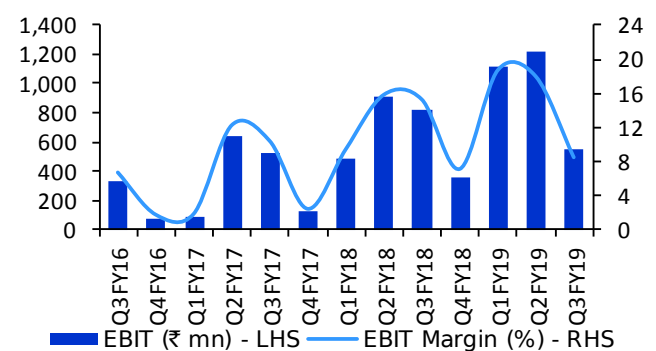
Source: DART, Company

Exhibit 6: Jewellery EBIT Performance


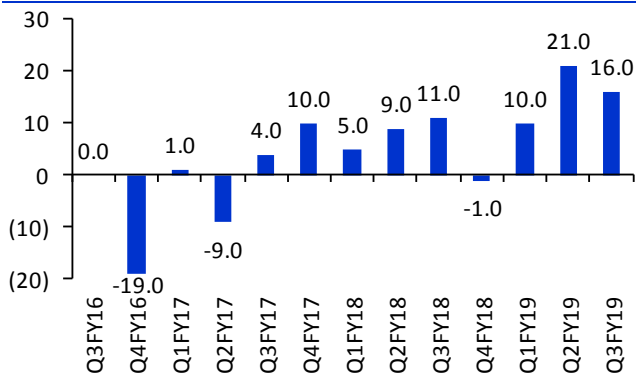
Source: DART, Company

Exhibit 7: Watch Revenue Performance


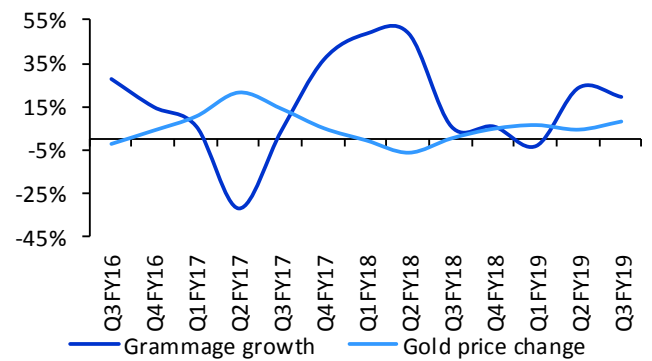
Source: DART, Company

Exhibit 8: Watch EBIT Performance


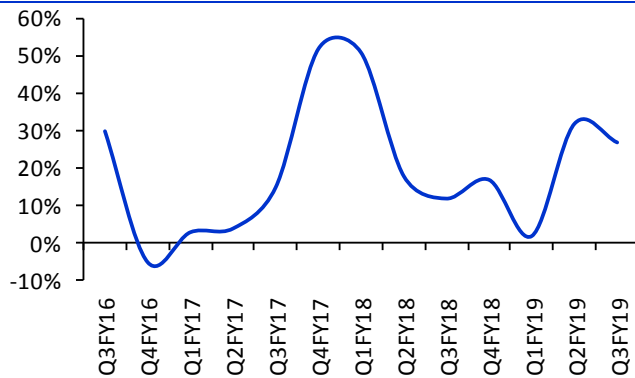
Source: DART, Company

Exhibit 9: Watch Volumes


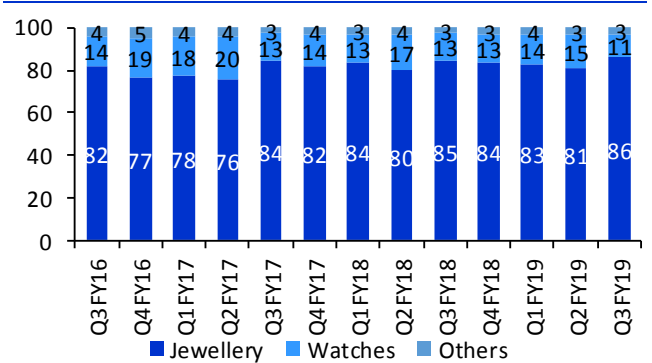
Source: DART, Company

Exhibit 10: Gold Grammage


Source: DART, Company

Exhibit 11: Tanishq Like to Like Growth


Source: DART, Company

Exhibit 12: Segmental Revenue Contribution


Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Revenue	156,213	192,256	226,927	262,096
Total Expense	138,880	171,313	201,013	231,768
COGS	113,857	140,480	167,945	194,434
Employees Cost	7,623	8,498	9,474	10,762
Other expenses	17,400	22,335	23,593	26,572
EBIDTA	17,333	20,942	25,915	30,328
Depreciation	1,097	1,493	1,779	2,066
EBIT	16,237	19,449	24,135	28,262
Interest	477	566	667	860
Other Income	864	1,037	1,089	1,143
Exc. / E.O. items	(917)	0	0	0
EBT	15,707	19,920	24,557	28,545
Tax	4,079	4,887	6,025	7,574
RPAT	11,629	15,033	18,532	20,971
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	12,545	15,033	18,532	20,971

Balance Sheet

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Sources of Funds				
Equity Capital	888	888	888	888
Minority Interest	0	0	0	0
Reserves & Surplus	51,052	65,848	81,606	99,804
Net Worth	51,940	66,735	82,494	100,691
Total Debt	16,039	16,539	17,039	17,539
Net Deferred Tax Liability	(481)	(481)	(481)	(481)
Total Capital Employed	67,498	82,793	99,052	117,750

Applications of Funds

Net Block	9,211	10,323	11,150	11,690
CWIP	412	412	412	412
Investments	7,563	7,563	7,563	7,563
Current Assets, Loans & Advances	76,298	92,938	112,414	134,602
Inventories	57,492	69,661	87,460	107,900
Receivables	1,930	2,011	2,516	3,081
Cash and Bank Balances	6,122	9,464	9,144	8,813
Loans and Advances	7,228	8,275	9,768	11,282
Other Current Assets	3,526	3,526	3,526	3,526
Less: Current Liabilities & Provisions	25,986	28,443	32,486	36,517
Payables	8,147	9,331	10,729	12,123
Other Current Liabilities	17,838	19,112	21,757	24,393
Net Current Assets	50,313	64,495	79,927	98,085
Total Assets	67,498	82,793	99,052	117,750

E – Estimates

Important Ratios

Particulars	FY18A	FY19E	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	27.1	26.9	26.0	25.8
EBIDTA Margin	11.1	10.9	11.4	11.6
EBIT Margin	10.4	10.1	10.6	10.8
Tax rate	26.0	24.5	24.5	26.5
Net Profit Margin	7.4	7.8	8.2	8.0
(B) As Percentage of Net Sales (%)				
COGS	72.9	73.1	74.0	74.2
Employee	4.9	4.4	4.2	4.1
Other	11.1	11.6	10.4	10.1
(C) Measure of Financial Status				
Gross Debt / Equity	0.3	0.2	0.2	0.2
Interest Coverage	34.1	34.4	36.2	32.9
Inventory days	134	132	141	150
Debtors days	5	4	4	4
Average Cost of Debt	2.7	3.5	4.0	5.0
Payable days	19	18	17	17
Working Capital days	118	122	129	137
FA T/O	17.0	18.6	20.4	22.4
(D) Measures of Investment				
AEPS (₹)	14.1	16.9	20.9	23.6
CEPS (₹)	15.4	18.6	22.9	25.9
DPS (₹)	3.1	3.1	3.1	3.1
Dividend Payout (%)	22.1	18.5	15.0	13.2
BVPS (₹)	58.5	75.2	92.9	113.4
RoANW (%)	24.5	25.3	24.8	22.9
RoACE (%)	20.2	20.8	21.1	20.1
RoAIC (%)	28.2	28.9	29.6	28.4
(E) Valuation Ratios				
CMP (₹)	992	992	992	992
P/E	70.2	58.6	47.5	42.0
Mcap (₹ Mn)	880,298	880,298	880,298	880,298
MCap/ Sales	5.6	4.6	3.9	3.4
EV	890,214	887,372	888,193	889,024
EV/Sales	5.7	4.6	3.9	3.4
EV/EBITDA	51.4	42.4	34.3	29.3
P/BV	16.9	13.2	10.7	8.7
Dividend Yield (%)	0.3	0.3	0.3	0.3
(F) Growth Rate (%)				
Revenue	21.1	23.1	18.0	15.5
EBITDA	45.0	20.8	23.7	17.0
EBIT	47.3	19.8	24.1	17.1
PBT	52.0	26.8	23.3	16.2
APAT	46.2	19.8	23.3	13.2
EPS	46.2	19.8	23.3	13.2

Cash Flow

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
CFO	2,992	8,756	5,226	5,408
CFI	(1,009)	(2,606)	(2,606)	(2,606)
CFF	(3,588)	(2,808)	(2,941)	(3,133)
FCFF	387	6,150	2,620	2,803
Opening Cash	7,727	6,122	9,464	9,144
Closing Cash	6,122	9,464	9,144	8,813

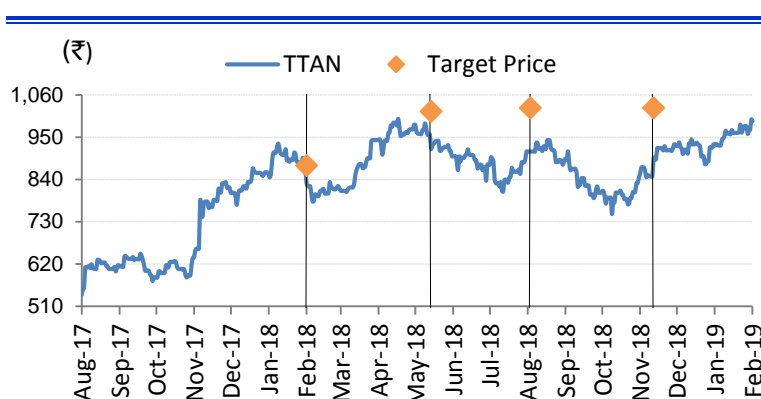
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Feb-18	Accumulate	876	831
May-18	Accumulate	1,017	920
Aug-18	Accumulate	1,026	912
Nov-18	Buy	1,026	895

*Price as on recommendation date

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