

Titan Company

BSE SENSEX

38,685

S&P CNX

11,598

CMP: INR1,107

TP: INR1,300(+17%)

Buy



Stock Info

	TTAN IN
Bloomberg	888
Equity Shares (m)	888
M.Cap.(INRb)/(USDb)	982.7 / 14.2
52-Week Range (INR)	1146 / 732
1, 6, 12 Rel. Per (%)	1/27/5
12M Avg Val (INR M)	2725
Free float (%)	47.1

Financials Snapshot (INR b)

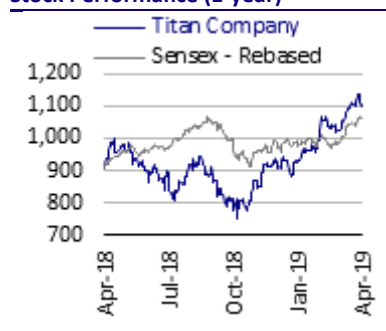
Y/E Mar	2019E	2020E	2021E
Net Sales	196.3	234.7	282.1
EBITDA	20.8	26.1	32.7
PAT	14.3	18.2	22.6
EPS (INR)	16.1	20.5	25.5
Gr. (%)	27.6	27.1	24.3
BV/Sh (INR)	57.5	66.7	76.9
RoE (%)	28.1	33.0	35.5
RoCE (%)	28.7	33.7	36.3
P/E (x)	68.7	54.0	43.5
P/BV (x)	19.3	16.6	14.4

Shareholding pattern (%)

As On	Dec-18	Sep-18	Dec-17
Promoter	52.9	52.9	52.9
DII	8.4	7.8	5.9
FII	18.5	19.5	21.3
Others	20.3	19.8	20.0

FII Includes depository receipts

Stock Performance (1-year)



Jewelry sparkles for another year with 20%+ growth

Management's confidence on further overall 20% sales growth heartening

TTAN has released its pre-quarterly update for 4QFY19 (and also FY19).

Key highlights:

- The company achieved overall sales growth of ~21% in FY19. Jewelry sales grew by ~22% after increasing by 25% in FY18, thereby exceeding the originally envisaged 20% five-year sales CAGR target for the second consecutive year .
- Moreover, management's confidence on further 20% overall sales growth in FY20 – despite a muted economic outlook – is heartening.
- Watches division reportedly continued its healthy growth momentum for the past few quarters, ending the year with ~16% growth (implying 14% growth in 4QFY19).
- Eyewear achieved revenue growth of ~23% for the full year (implying 18% growth in 4QFY19).
- There is no material change to our EPS estimates. We maintain our Buy rating with a target price of INR1,300, valued at 51x Mar'21 EPS, ~15% premium to three-year average multiple because of its strong earnings growth prospects (~26% EPS CAGR over FY19-21E).

Jewellery: 20%+ sales growth for second consecutive year

- TTAN achieved Jewellery sales growth of ~22% in FY19, despite slow growth in the industry, which means that segmental sales grew ~16% in 4QFY19.
- A record number of stores were opened during the year, with net additions of 35 stores (opened 40 *Tanishq* stores and closed five stores; net retail space addition of 90k sq. ft.). These were primarily opened in the middle India towns.
- The year saw some hit collections like *Diamond Treats*, *Gulnaaz*, *Utsava* and *Preen*.
- Recently, TTAN increased its stake in its subsidiary *Caratlane* to 69.47% from 66.39% via an investment of INR1b. *Caratlane* saw growth of ~42% in FY19 and it continues to aggressively open retail stores in line with its omni-channel strategy.

Watches: Performance driven by e-com and new product launches

- Watches division reportedly continued its healthy growth momentum throughout the year, with ~14% growth in 4QFY19 (~16% growth in FY19, according to the press release), led by its continued focus on new designs across brands. E-commerce saw highest growth across channels for the division.
- Smart products (introduced two years back), including wearables, grew at a strong 80%+, achieving sales of more than INR1b in FY19. Accessories, too, crossed a turnover of INR1b during the fiscal.
- The division added 30 *World of Titan* (closed 24), 22 *Fastrack* (closed 14) and 12 *Helios* stores (closed 4) in FY19.

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Eyewear: New strategy of lower ASP working well

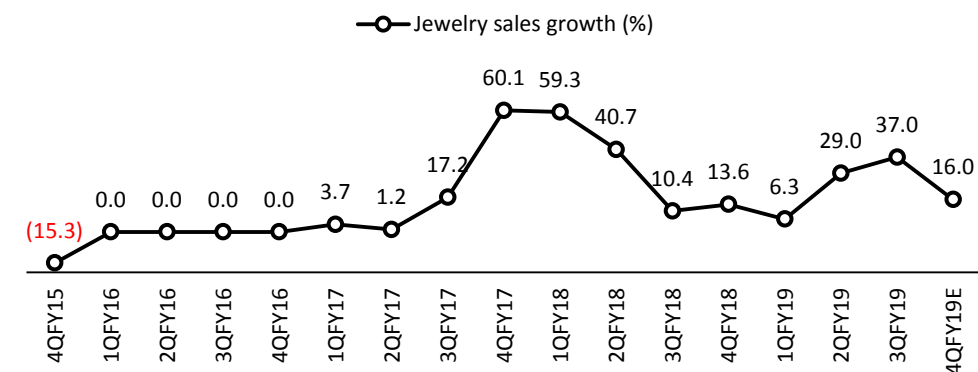
- The division achieved revenue growth of ~23% for the full year, which means ~18% growth for the March quarter. It also progressed well on its vision to cater to 10m customers a year by FY23 (served 3.5m customers in FY19, up from 2.5m in the previous fiscal).
- TTAN's new strategy (targeted from the beginning of the year) of offering a range of products at a more affordable price point continued to work well for the company.
- The division added 74 new stores (and closed 30), adding 28k sq.ft. of retail space in FY19 at net level.

New businesses

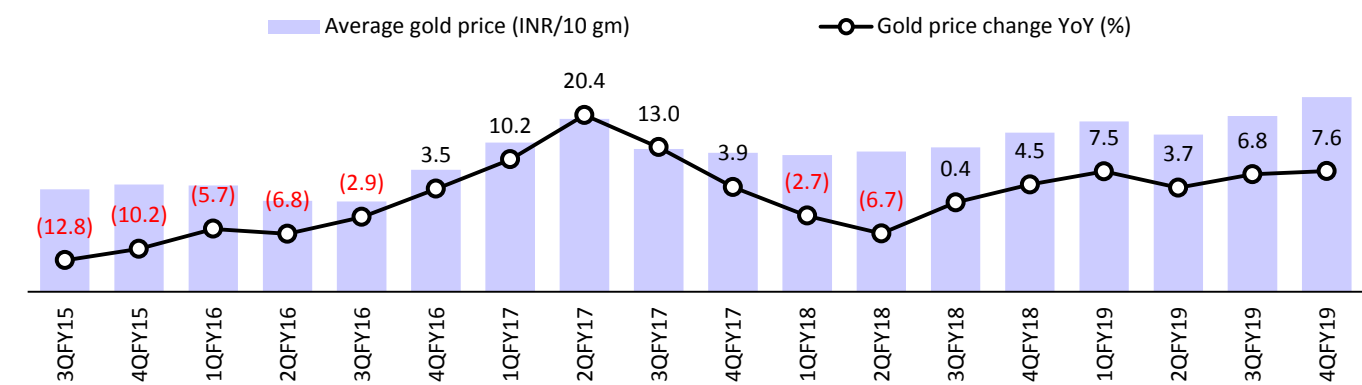
- *Skin*: In FY19, the brand sold more than 1m units and crossed sales of INR1b (at consumer price level). It continues adding new point of sales (POS) at a rapid pace (now reaches more than 3,000 POS).
- *Taneira*: After two years of experimenting, gauging customer demand and retail economic for the brand, the business is now geared up for calibrated expansion in FY20.

Valuation and view

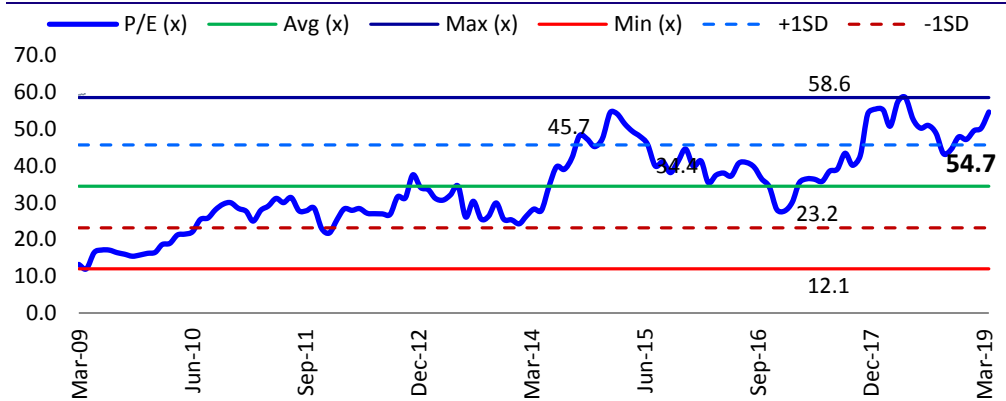
- According to the pre-quarterly update, Jewelry sales grew by ~22% after increasing by 25% in FY18, thereby exceeding the originally envisaged 20% five-year sales CAGR target for the second consecutive year. Interestingly, management's confidence on further 20% overall sales growth in FY20 (stated in the 4QFY19 pre-quarterly release) – despite a muted economic outlook – is heartening. It indicates that not only are all segments firing well but also that Jewelry sales are targeted to grow even faster than overall sales growth. If achieved, it will be the third year of better-than-expected Jewelry sales.
- Despite opening a record 40 Tanishq stores (35 net), the emphasis on aggressive store expansion underlines management's increasing confidence, even as the base and economic environment remain challenging.
- Jewelry growth prospects continue to be robust, and now Watches and even Eyewear have started contributing to growth. High valuations are fully deserved for a business that has perhaps the best top-line growth visibility in the large-cap FMCG/retail space. In addition, operating leverage arising from (a) the high contribution of SSSG to Jewelry sales growth and (b) the recovery in Watches margins are likely to lead to healthy EBITDA margin expansion, bettering the prospects of a best-of-breed and sustained earnings growth performance.
- There is no material change to our EPS forecasts.
- We maintain our Buy rating with a target price of INR1,300 (51x Mar'21E EPS, ~15% premium to three-year average P/E).

Exhibit 1: Jewellery sales to grow at ~16% YoY for 4QFY19

Source: Company, MOFSL

Exhibit 2: Gold prices up 7.6% YoY in 4QFY19

Source: Company, MOFSL

Exhibit 3: TTAN P/E (x)

Source: Company, MOFSL

Financials and Valuations

Income Statement							(INR m)
Y/E March	2015	2016	2017	2018	2019E	2020E	2021E
Net Sales	119,095	112,759	132,608	161,198	196,329	234,743	282,138
Change (%)	9.1	-5.3	17.6	21.6	21.8	19.6	20.2
Gross Profit	31,562	30,949	37,534	44,336	53,571	65,873	80,258
Margin (%)	26.5	27.4	28.3	27.5	27.3	28.1	28.4
Other expenditure	19,962	21,601	25,979	27,889	32,762	39,804	47,534
EBITDA	11,599	9,347	11,555	16,447	20,808	26,069	32,724
Change (%)	10.6	-19.4	23.6	42.3	26.5	25.3	25.5
Margin (%)	9.7	8.3	8.7	10.2	10.6	11.1	11.6
Depreciation	874	982	1,105	1,314	1,647	1,886	2,123
Int. and Fin. Charges	807	424	377	529	553	575	682
Other Income - Recurring	643	739	705	889	1,547	1,314	1,483
Profit before Taxes	10,562	8,681	10,777	15,492	20,156	24,922	31,402
Change (%)	4.0	-17.8	24.1	43.7	30.1	23.6	26.0
Tax	2,410	1,710	3,021	4,500	5,845	6,729	8,793
Deferred Tax	82	-206	261	221	0	0	0
Tax Rate (%)	22.0	22.1	25.6	27.6	29.0	27.0	28.0
Profit after Taxes	8,233	6,765	8,018	11,213	14,311	18,193	22,609
Change (%)	11.1	-17.8	18.5	39.9	27.6	27.1	24.3
Margin (%)	6.9	6.0	6.0	7.0	7.3	7.8	8.0
Extraordinary income	0	0	-1,027	-167	0	0	0
Reported PAT	8,233	6,765	6,991	11,047	14,311	18,193	22,609

Balance Sheet							(INR m)
Y/E March	2015	2016	2017	2018	2019E	2020E	2021E
Share Capital	888	888	888	888	888	888	888
Reserves	32,637	34,178	41,700	49,993	50,147	58,334	67,378
Net Worth	33,525	35,066	42,587	50,881	51,035	59,222	68,266
Loans	998	1,131	0	790	500	250	250
Deferred Tax	64	131	-33	-329	-329	-329	-329
Capital Employed	34,587	36,327	42,555	51,342	51,206	59,143	68,187
Gross Block	11,824	13,559	9,858	13,384	15,509	17,584	19,659
Less: Accum. Depn.	5,103	6,054	1,220	2,137	3,784	5,670	7,793
Net Fixed Assets	6,720	7,506	8,638	11,247	11,725	11,914	11,866
Intangibles	102	200	3,337	3,495	3,495	3,495	3,495
Capital WIP	552	1,067	1,432	430	430	430	430
Investments	290	26	3,937	16	16	16	16
Curr. Assets, L&A	50,932	54,624	66,698	79,694	93,991	107,393	128,471
Inventory	40,493	44,472	49,257	59,248	67,759	78,339	92,758
Account Receivables	1,897	1,925	2,076	2,957	3,120	4,180	5,024
Cash and Bank Balance	2,138	1,442	8,159	6,523	10,503	10,372	14,012
Others	6,403	6,785	7,205	10,965	12,610	14,502	16,677
Curr. Liab. and Prov.	24,010	27,095	41,488	43,540	58,451	64,104	76,090
Current Liabilities	22,943	25,794	40,056	41,909	57,041	62,693	74,679
Provisions	1,067	1,302	1,433	1,631	1,411	1,411	1,411
Net Current Assets	26,922	27,529	25,210	36,154	35,540	43,289	52,381
Application of Funds	34,587	36,327	42,555	51,342	51,206	59,143	68,187

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2015	2016	2017	2018	2019E	2020E	2021E
Basic (INR)							
EPS	9.3	7.6	9.0	12.6	16.1	20.5	25.5
Cash EPS	10.3	8.7	10.2	14.0	18.0	22.6	27.9
BV/Share	37.8	39.5	48.0	57.3	57.5	66.7	76.9
DPS	2.8	5.4	3.6	4.6	8.1	11.3	15.3
Payout %	29.8	70.3	39.7	36.3	50.0	55.0	60.0

Valuation (x)

P/E	119.4	145.3	122.6	87.6	68.7	54.0	43.5
Cash P/E	107.9	127.4	108.2	79.0	61.6	48.9	39.7
EV/Sales	8.2	8.7	7.3	6.1	5.0	4.1	3.4
EV/EBITDA	84.6	105.1	84.0	59.4	46.7	37.3	29.6
P/BV	29.3	28.0	23.1	19.3	19.3	16.6	14.4
Dividend Yield (%)	0.3	0.5	0.3	0.4	0.7	1.0	1.4

Return Ratios (%)

RoE	28.0	19.7	20.6	24.0	28.1	33.0	35.5
RoCE	26.1	20.0	21.0	24.7	28.7	33.7	36.3
RoIC	30.2	19.9	24.8	29.8	32.2	39.9	43.2

Working Capital Ratios

Debtor (Days)	6	6	6	7	6	7	7
Asset Turnover (x)	3.4	3.1	3.1	3.1	3.8	4.0	4.1

Leverage Ratio

Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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Cash Flow Statement

(INR m)

Y/E March	2015	2016	2017	2018	2019E	2020E	2021E
OP/(loss) before Tax	10,489	8,681	9,733	15,298	20,156	24,922	31,402
Int./Div. Received	77	-95	31	-81	-1,547	-1,314	-1,483
Depreciation & Amort.	896	982	1,105	1,314	1,647	1,886	2,123
Interest Paid	165	-152	-136	-113	553	575	682
Direct Taxes Paid	2,449	2,025	2,768	4,561	5,845	6,729	8,793
Incr in WC	4,152	1,631	-9,158	12,365	-4,594	7,880	5,452
CF from Operations	5,026	5,761	17,123	-507	19,557	11,460	18,480
Incr in FA	2,070	2,522	2,511	2,993	2,125	2,075	2,075
Free Cash Flow	2,956	3,239	14,613	-3,500	17,432	9,385	16,405
Investments	-2	-55	3,254	-4,115	0	0	0
Others	-301	-1,058	2,986	-273	8,596	886	1,166
CF from Invest.	-1,767	-1,409	-8,750	1,395	-10,721	-2,961	-3,241
Incr in Debt	0	0	0	0	-290	-250	0
Dividend Paid	1,852	3,944	36	2,774	4,014	7,806	10,916
Others	8,194	1,104	1,621	-249	553	575	682
CF from Fin. Activity	-10,047	-5,048	-1,656	-2,524	-4,857	-8,630	-11,598
Incr/Decr of Cash	-6,787	-696	6,717	-1,637	3,979	-131	3,640
Add: Opening Balance	8,926	2,138	1,442	8,159	6,523	10,502	10,372
Closing Balance	2,138	1,442	8,159	6,523	10,502	10,372	14,012

E: MOSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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