Titan Company (TITIND)

ICICI direct Research

CMP: ₹ 1095 | Target: ₹ 1290 (⬆ 18%) | Target Period: 12 months | BUY

May 9, 2019

Overall healthy quarter; one-offs restrict PAT growth

Titan reported a healthy set of Q4FY19 numbers, driven by sustained robust performance for the jewellery division. However, various one-offs in the quarter, impacted profitability. Revenues grew 19% YoY to ₹ 4888.8 crore led by robust revenue growth of 22% in the jewellery division despite muted growth witnessed in the industry. Adjusting for exceptional expenses, EBITDA margins improved marginally by 20 bps YoY to 10.8%. The company has fully provided for the ₹ 145 crore inter corporate deposits in the IL&FS group (₹ 46 crore provided in Q4FY19). Further, the company has made an ex-gratia payment to its employees to the tune of ₹ 34.0 crore. Following the same, PAT grew 13.7% YoY to ₹ 348.2 crore.

Jewellery continues to glitter in FY19, despite headwinds…

The jewellery division reported robust revenue growth of 22.3% YoY to ₹ 4105.4 crore, driven by healthy like-to-like sales growth of 14%. The grammage growth was at 15% while gold prices were up 7% YoY to ₹ 3102/gram in Q4FY19. The division reported inventory valuation loss of ₹ 37.0 crore, which is expected to be largely reversed in the next quarter. Adjusting for the same, EBIT margins for the jewellery division improved 50 bps YoY to 13.0%. FY19 was a challenging year for the jewellery industry owing to; a) tightening of credit policy, b) surge in gold prices and c) lower number of wedding dates. Despite headwinds, Tanishq continued to gain market share in FY19 (as per the management, industry growth was flat in FY19). The management highlighted that FY20 has started on a positive note with YTD FY20 revenue growth of 19% YoY. The management maintained its revenue growth guidance of 20% for FY20E with accelerated pace of store addition (60-70 new Tanishq stores).

Watches division reports one of its best performances in FY19

Revenue trajectory for the watches segment tapered down in Q4FY19, with modest growth of 7.9% YoY to ₹ 531.2 crore. EBIT margins for the division declined 120 bps YoY to 2.3% mainly on account of unfavourable product mix and ex-gratia payments to its employees. Despite a subdued quarter, the watches division reported a strong performance in FY19 with revenue growth of 15% YoY to ₹ 2447 crore (five consecutive years of single digit revenue growth), with EBIT margins improving 120 bps YoY to 11.0%.

Valuation & Outlook

Titan has consistently displayed its ability to gain market share amid a tough industry scenario. Robust balance sheet (30%+ RoCE and virtually debt free status) and asset light distribution model has enabled it to outpace peers in terms of store addition. Enriched jewellery portfolio with launch of new collections (wedding space) and sustained investment in brand building is enabling better than industry revenue growth. We model revenue and earnings CAGR of 20% and 29%, respectively, in FY19-21E. We reiterate our **BUY** rating on stock with a target price of ₹ 1290 (49.0x FY21E EPS).

TITAN COMPANY

Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	97,212.6
Debt (FY19) (₹ Crore)	31.8
Cash (FY19) (₹ Crore)	1,066.5
EV (₹ Crore)	96,177.8
52 week H/L	1164 / 732
Equity Capital (₹ Crore)	88.8
Face Value (₹)	1

Key Highlights

- Despite headwinds, the jewellery division reported healthy revenue growth of 24% in FY19
- Various one-off expenses restricted PAT growth
- Management remains upbeat on the growth outlook with 20% overall growth in FY20E
- Maintain **BUY** recommendation with a target price of ₹ 1290

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

(₹ Crore)	FY17	FY18	FY19A	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	13,260.8	16,119.8	19,778.5	23,818.7	28,384.0	19.8
EBITDA	1,155.5	1,644.7	2,136.5	2,715.3	3,349.3	25.2
PAT	711.5	1,130.1	1,404.2	1,909.6	2,346.6	29.3
EPS (₹)	8.0	12.7	15.8	21.5	26.4	
P/E (x)	136.6	86.0	69.2	50.9	41.4	
EV/Sales (x)	7.3	6.0	4.9	4.0	3.4	
EV/EBITDA (x)	83.5	58.8	45.0	35.3	28.5	
RoCE (%)	24.7	29.3	32.3	33.7	34.2	
RoE (%)	16.8	22.2	23.1	25.6	25.8	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Revenue	4888.8	4818.0	4107.2	19.0	5871.5	-16.7	Jewellery division sustains its robust revenue growth
Raw Material Expense	3,525.7	3,477.2	2,900.3	21.6	4,366.0	-19.2	
Employee Expenses	286.6	250.4	246.3	16.4	249.1	15.0	
Advertising Expenses	138.3	124.0	111.5	24.0	156.2	-11.5	
Other Expenses	489.8	434.1	413.7	18.4	509.0	-3.8	
EBITDA	448.5	532.3	435.5	3.0	591.2	-24.1	Adjusted EBITDA: ₹ 528 crore
EBITDA Margin (%)	9.2	11.0	10.6	-143 bps	10.1	-90 bps	Adjusted EBITDA margin: 10.8%
Depreciation	40.8	39.2	36.0	13.6	38.5	6.2	
Interest	12.5	16.0	16.7	-25.3	15.7	-20.3	
Other Income	56.3	43.8	18.5	204.8	62.6	-10.1	
PBT before Exceptional item	451.4	520.9	401.3	12.5	599.7	-24.7	
Exceptional Item	0.0	0.0	-5.7		0.0		
PBT	451.4	520.9	407.0	10.9	599.7	-24.7	
Tax Outgo	103.2	156.3	89.3	15.6	188.5	-45.2	
PAT	348.3	364.6	304.4	14.4	411.1	-15.3	Higher other income assisted PAT growth
Key Metrics							
Jewellery							
Revenues (₹ Crore)	4,105.4	3,878.5	3,358.1	22.3	4,997.0	-17.8	Retail sales growth: 20%, LTL: 14%
Segment EBIT Margin (%)	12.2	NA	12.6	-49 bps	12.9	-79 bps	Decline in gross margins on account of inventory valuation loss worth ₹ 37.0 crore, which will be reversed in the next quarter
Watches							
Revenues (₹ Crore)	531.2	556.4	492.4	7.9	641.2	-17.2	Moderate growth in Q4FY19
Segment EBIT Margin (%)	2.3	NA	3.5	-122 bps	6.8	-445 bps	Unfavourable product & channel mix and ex-gratia payment to employees impacted margins

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY19A		FY20E			FY21E	
(₹ Crore)	Actual	Old	New	% Change	Old	New	% Change
Revenue	19,778.5	23,636.7	23,818.7	0.8	28,206.3	28,384.0	0.6
EBITDA	2,136.5	2,694.6	2,715.3	0.8	3,328.3	3,349.3	0.6
EBITDA Margin (%)	10.8	11.4	11.4	0 bps	11.8	11.8	0 bps
PAT	1,404.2	1,886.8	1,909.6	1.2	2,338.4	2,346.6	0.3
EPS (₹)	15.8	21.3	21.5	1.2	26.3	26.4	0.3

Source: Company, ICICI Direct Research

Conference Call Highlights

Jewellery division

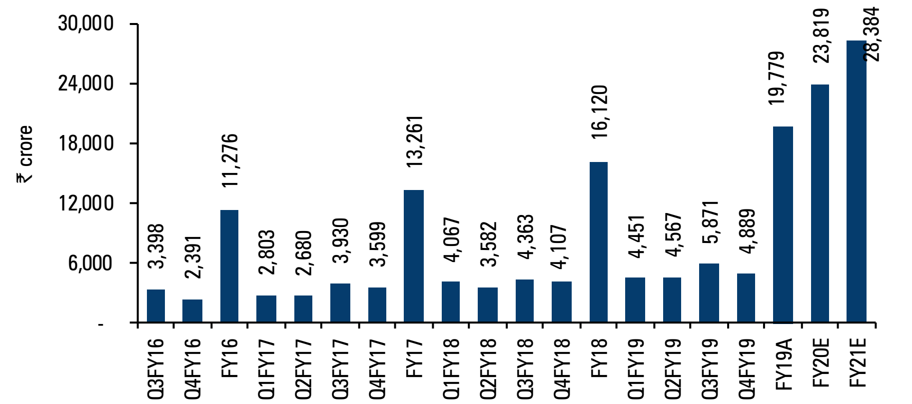
- The jewellery industry has largely remained flat while Tanishq with its continued growth has gained market share
- Q1FY20 (YTD) registered sales growth of ~ 19%. The management reiterated its target of achieving 20% revenue growth in FY20. The management said growth is likely to be driven by wedding jewellery as FY20 has significantly higher wedding dates than FY19 (40% higher)
- Golden harvest scheme (GHS) was at 20% for Q4FY19. Gold Exchange Scheme share of gold sourcing was at ~ 40%
- Studded jewellery share remained stable at 36%
- The management added highest number of Tanishq stores in a single year (net addition 34 stores) taking the total store count to 287 in FY19. The company is likely to add 65-70 Tanishq stores in FY20 (~90% through franchisee model)
- The management highlighted that new diamond collections such as, 'Gulnaaz', 'Utsava' and 'Preen' witnessed robust traction. The new collections are in line with Titan's strategy to scale up its share of high value studded jewellery segment to 50% by FY23
- Titan continued to aggressively add CaratLane stores, to strengthen its Omni-channel strategy. CaratLane reported robust revenue growth of 44% YoY to ₹ 421 crore. In order to capitalise on the potential, Titan invested ₹ 100 crore to increase its stake in CaratLane from 66.39% to 69.74%
- The growth rate from the wedding segment was slightly higher than the overall growth in FY19. While Q2, Q3 and Q4FY19 witnessed healthy 35%+ growth from the wedding space, decline in revenues in Q1FY19 dragged the overall growth for the wedding segment

Watches and other division

- After five consecutive years of single digit revenue growth, the watches division registered a turnaround in FY19 with 15% revenue growth
- The division strengthened its smart watches product portfolio with number new launches. Smart products including wearable's grew at 80%+, crossing the landmark of ₹ 100 crore in FY19
- While strong growth was witnessed across all channels, modern retail formats and e-commerce have performed exceptionally well
- On a net basis, the division added six Fastrack and Helios stores each in FY19
- For the eyewear division, the strategy of the management to increase assortment at more affordable points has worked out well in FY19 with revenue growth of 23%. The company added 37 stores in FY19
- Among the new business, Taneira was performing as per management expectation. The management is planning to scale up the business by adding ~ 14 stores in FY20 to the existing four stores
- Overall capex for FY19 was at ~₹ 240 crore while capex for FY20 is likely to be ~ ₹ 200-250 crore
- The company declared dividend of ₹ 5/share

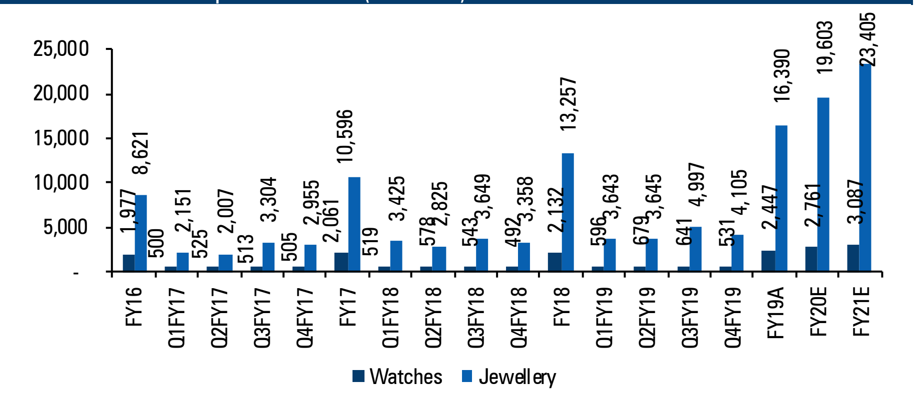
Financial story in charts

Exhibit 3: Revenue trend…



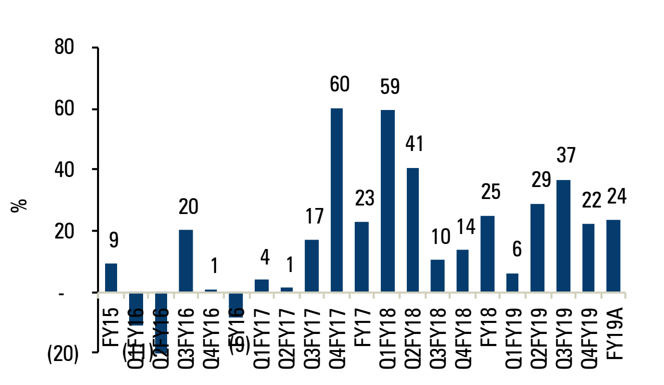
Source: Company, ICICI Direct Research

Exhibit 4: Divisional performance (revenue)



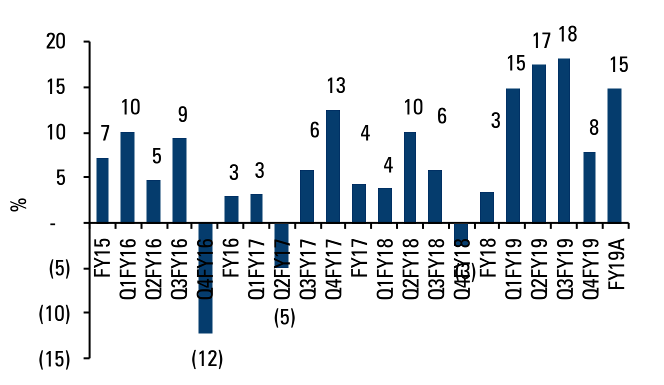
Source: Company, ICICI Direct Research

Exhibit 5: Jewellery segment growth



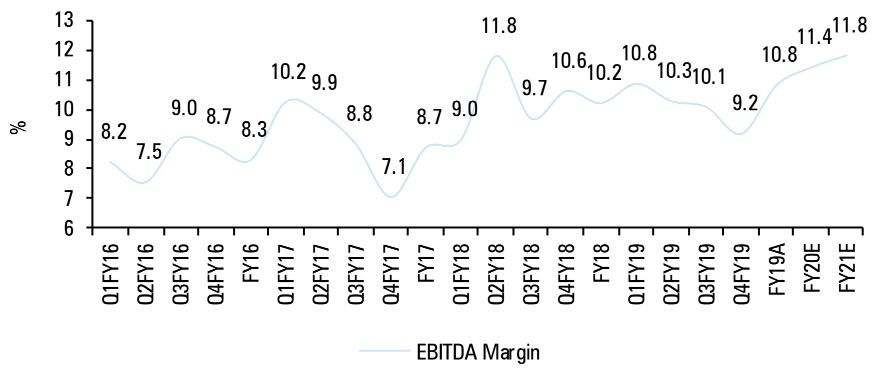
Source: Company, ICICI Direct Research

Exhibit 6: Watches segment growth



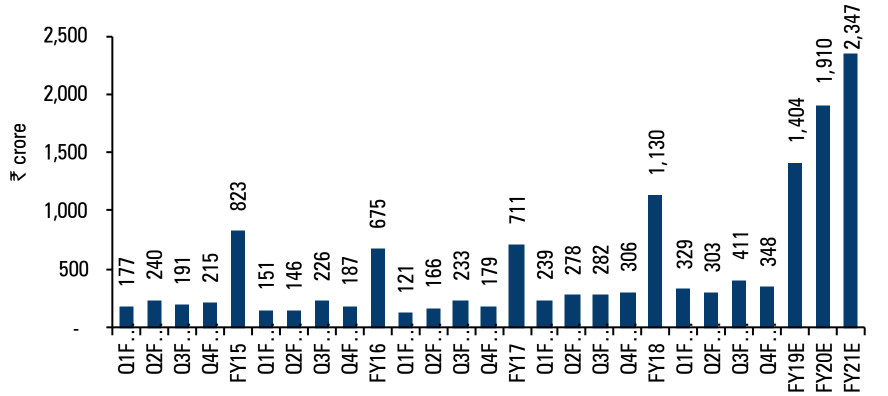
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margin trend….



Source: Company, ICICI Direct Research

Exhibit 8: Net profit trend



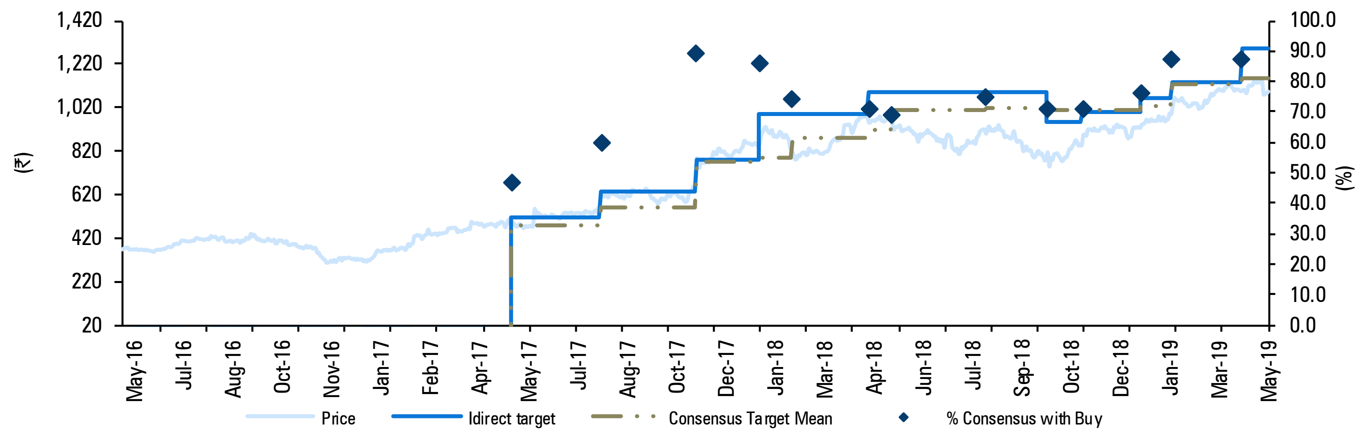
Source: Company, ICICI Direct Research

Exhibit 9: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	16,119.8	21.6	12.7	58.8	86.0	58.8	22.2	29.3
FY19A	19,778.5	22.7	15.8	24.3	69.2	45.0	23.1	32.3
FY20E	23,818.7	20.4	21.5	36.0	50.9	35.3	25.6	33.7
FY21E	28,384.0	19.2	26.4	22.9	41.4	28.5	25.8	34.2

Source: Company, ICICI Direct Research

Exhibit 10: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 11: Top 10 Shareholders

Rank	Name	Last Filing Date	%O/S	Position (m)	Change (m)
1	Tamilnadu Industrial Development Corporation, Ltd.	31-Mar-19	27.88	247.5	0.0
2	Tata Group of Companies	31-Mar-19	24.98	221.7	0.0
3	Jhunjhunwala (Rakesh Radheshyam)	31-Mar-19	5.72	50.8	-0.6
4	Jhunjhunwala (Rekha Rakesh)	31-Mar-19	1.32	11.7	0.1
5	The Vanguard Group, Inc.	31-Mar-19	1.25	11.1	0.0
6	Matthews International Capital Management, L.L.C.	31-Dec-18	1.21	10.7	-6.7
7	BlackRock Institutional Trust Company, N.A.	30-Apr-19	1.16	10.3	0.0
8	Life Insurance Corporation of India	31-Dec-18	1.10	9.8	-4.7
9	ICICI Prudential Asset Management Co. Ltd.	31-Mar-19	0.88	7.8	-0.4
10	SBI Funds Management Pvt. Ltd.	31-Mar-19	0.73	6.5	-0.2

Source: Reuters, ICICI Direct Research

Exhibit 12: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Norges Bank Investment Management (NBIM)	20.89	1.56	Matthews International Capital Management, L.L.C.	-90.24	-6.74
Wellington Management Company, LLP	6.01	0.45	Life Insurance Corporation of India	-63.11	-4.7
Robeco Institutional Asset Management B.V.	6.49	0.39	Baron Capital Management, Inc.	-27.25	-2.0
Sundaram Asset Management Company Limited	6.23	0.38	Kotak Mahindra Asset Management Company Ltd.	-15.59	-0.9
Causeway Capital Management LLC	5.34	0.32	Reliance Nippon Life Asset Management Limited	-13.73	-0.83

Source: Reuters, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	52.9	52.9	52.9	52.9	52.9
FII	21.3	21.1	20.1	19.1	19.9
DII	6.1	6.5	7.6	8.2	7.2
Others	19.7	19.5	19.4	19.8	20.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 14: Profit and loss statement				₹ crore
(Year-end March)	FY18	FY19A	FY20E	FY21E
Total operating Income	16,119.8	19,778.5	23,818.7	28,384.0
Growth (%)	21.6	22.7	20.4	19.2
Raw Material Expenses	11,686.2	14,394.3	17,006.6	20,550.0
Employee Expenses	885.1	1,019.3	1,262.4	1,447.6
Mfg, Admin & selling Exps	1,903.8	2,228.5	2,834.4	3,037.1
Total Operating Expenditure	14,475.1	17,642.0	21,103.4	25,034.7
EBITDA	**1,644.7**	**2,136.5**	**2,715.3**	**3,349.3**
Growth (%)	42.3	29.9	27.1	23.3
Depreciation	131.4	162.8	191.8	220.0
Interest	52.9	52.5	39.6	33.7
Other Income	88.9	182.9	186.6	190.3
PBT	1,549.2	2,104.1	2,670.5	3,286.0
Exceptional items*	16.7	145.0	0.0	0.0
Total Tax	427.9	568.2	774.5	952.9
Share of JV/Minority int	25.4	13.3	13.5	13.5
PAT	**1,130.1**	**1,404.2**	**1,909.6**	**2,346.6**
Growth (%)	58.8	24.3	36.0	22.9
EPS (₹)	**12.7**	**15.8**	**21.5**	**26.4**

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement				₹ crore
(Year-end March)	FY18	FY19A	FY20E	FY21E
PAT	1,130.1	1,404.2	1,909.6	2,346.6
Add: Depreciation	131.4	162.8	191.8	220.0
(Inc)/dec in Current Assets	-1,443.9	-1,531.2	-1,644.5	-1,991.5
Inc/(dec) in CL and Provision	205.2	1,384.9	662.7	774.1
Others	0.0	0.0	0.0	0.0
CF from operating activities	**22.8**	**1,420.7**	**1,119.6**	**1,349.1**
(Inc)/dec in Investments	382.7	-218.8	-46.4	-35.8
(Inc)/dec in Fixed Assets	-373.5	-254.3	-248.6	-246.3
(Inc)/dec in CWIP	108.7	11.6	0.0	9.5
Others	-50.3	-19.5	0.0	0.0
CF from investing activities	**67.6**	**-481.0**	**-295.0**	**-272.6**
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	79.0	-47.2	1.3	1.3
Others	-330.4	-443.9	-532.7	-681.6
CF from financing activities	**-251.4**	**-491.1**	**-531.4**	**-680.3**
Net Cash flow	-161.0	448.6	293.3	396.2
Opening Cash	778.9	617.9	1,066.5	1,359.7
Closing Cash	**617.9**	**1,066.5**	**1,359.7**	**1,756.0**

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet				₹ crore
(Year-end March)	FY18	FY19A	FY20E	FY21E
Liabilities				
Equity Capital	88.8	88.8	88.8	88.8
Reserve and Surplus	5,001.1	5,981.4	7,358.2	9,022.9
Total Shareholders funds	5,089.9	6,070.2	7,446.9	9,111.7
Total Debt	79.0	31.8	33.0	34.3
Deferred Tax Liability	(32.9)	(68.8)	(68.8)	(68.8)
Other long term liabilities	(1.8)	14.1	14.2	14.4
Total Liabilities	**5,134.2**	**6,047.2**	**7,425.4**	**9,091.6**
Assets				
Gross Block	1,558.1	1,812.4	2,061.0	2,307.4
Less: Accu Depreciation	230.0	392.8	584.6	804.6
Net Block	1,328.1	1,419.6	1,476.5	1,502.8
Capital WIP	43.4	31.8	31.8	22.2
Goodwill on Consolidation	123.0	123.0	123.0	123.0
Total Fixed Assets	1,494.5	1,574.4	1,631.2	1,648.0
Investments	58.7	132.4	178.8	214.6
Inventory	5,924.8	7,038.8	8,352.9	9,953.9
Debtors	295.7	420.5	489.4	583.2
Loans and Advances	994.4	1,286.8	1,548.2	1,845.0
Other Current Assets	-	-	-	-
Cash	617.9	1,066.5	1,359.7	1,756.0
Total Current Assets	7,832.8	9,812.5	11,750.3	14,138.0
Creditors	2,489.8	3,258.9	3,915.4	4,665.9
Other Current Liabilities	1,723.2	2,139.0	2,143.7	2,157.2
Provisions	141.1	196.0	197.5	207.6
Total Current Liabilities	4,354.0	5,593.9	6,256.6	7,030.7
Net Current Assets	3,478.8	4,218.7	5,493.7	7,107.3
Others Non Current Assets	102.2	121.7	121.7	121.7
Application of Funds	**5,134.2**	**6,047.2**	**7,425.4**	**9,091.6**

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
(Year-end March)	FY18	FY19A	FY20E	FY21E
Per share data (₹)				
EPS	12.7	15.8	21.5	26.4
Cash EPS	13.9	17.5	23.5	28.8
BV	57.3	68.4	83.9	102.6
DPS	2.6	3.8	5.0	6.6
Cash Per Share	7.0	12.0	15.3	19.8
Operating Ratios				
EBITDA Margin (%)	10.2	10.8	11.4	11.8
PBT Margin (%)	9.61	10.64	11.21	11.58
PAT Margin (%)	6.9	7.0	8.0	8.2
Inventory days	134.2	129.9	128.0	128.0
Debtor days	6.7	7.8	7.5	7.5
Creditor days	56.4	60.1	60.0	60.0
Return Ratios (%)				
RoE	22.2	23.1	25.6	25.8
RoCE	29.3	32.3	33.7	34.2
RoIC	33.7	40.3	42.5	43.6
Valuation Ratios (x)				
P/E	86.0	69.2	50.9	41.4
EV / EBITDA	58.8	45.0	35.3	28.5
EV / Net Sales	6.0	4.9	4.0	3.4
Market Cap / Sales	6.0	4.9	4.1	3.4
Price to Book Value	19.1	16.0	13.1	10.7
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	1.8	1.9	2.0
Quick Ratio	0.4	0.5	0.5	0.6

Source: Company, ICICI Direct Research

Exhibit 18: ICICI Direct coverage universe (Retail)

Sector / Company	CMP			M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Bata India	1,350	1,300	Hold	17,363	17.4	25.3	30.1	77.5	53.3	44.9	43.4	31.0	26.2	19.9	25.1	25.8	15.1	19.0	19.7
Shoppers Stop (SHOSTO)	455	510	Hold	4,002	1.3	9.0	11.9	345.0	50.8	38.2	19.3	15.9	13.8	9.6	11.6	14.4	1.2	8.1	9.8
Titan Company (TITIND)	1,095	1,290	Buy	97,213	12.7	15.8	21.5	86.0	69.2	50.9	58.8	45.0	35.3	29.3	32.3	33.7	22.2	23.1	25.6
Trent	374	415	Buy	12,422	2.6	2.9	5.1	142.8	131.0	73.0	61.2	54.5	41.8	10.0	10.1	12.1	5.5	5.8	9.7
ABFRL	208	250	Buy	16,069	1.5	2.2	3.4	136.3	96.7	61.5	34.9	27.9	22.8	8.5	11.4	13.5	10.8	13.2	17.2

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%
Hold: -5% to 15%;
Reduce: -15% to -5%;
Sell: <-15%

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