

# Stock Update

Growth momentum to sustain

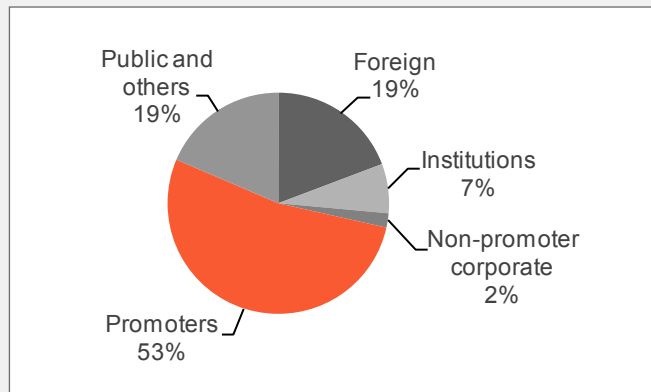
## Titan Company

Reco: Buy | CMP: Rs1,234

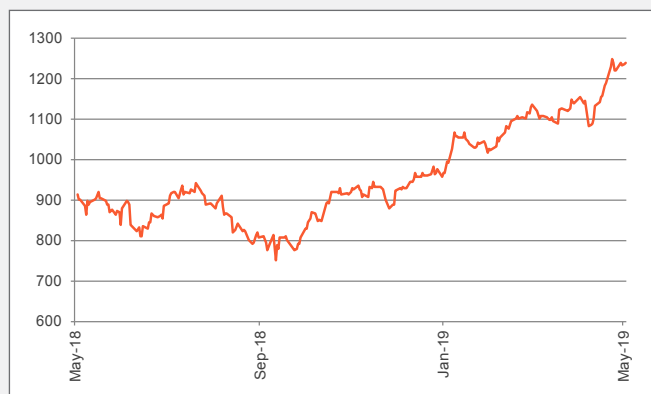
### Company details

Price target:	Rs1,375
Market cap:	Rs108,754
52-week high/low:	Rs1,262 / 732
NSE volume: (No of shares)	23.4 lakh
BSE code:	500114
NSE code:	TITAN
Sharekhan code:	TITAN
Free float: (No of shares)	41.8 cr

### Shareholding pattern



### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	7.1	21.0	33.8	36.4
Relative to Sensex	4.8	8.7	21.2	18.0

### Key points

- FY2019 was strong; Growth momentum to sustain in FY2020:** FY2019 was yet another fiscal of strong performance for Titan with revenue and PAT growing by 23% and 35%, respectively (OPM improving by 80 BPS to 11%) during the year. This was mainly on account of strong performance by three key business verticals – jewellery, eyewear and watches, which delivered 15-23% revenue growth during the year. FY2020 was expected to start at a slow pace, but stable government at the centre and likely implementation of buoyant economic policies would help Titan to deliver yet another year of strong performance because of improving demand for discretionary consumption (especially in the H2FY2020). Premiumisation, revival of local regional identity, rising trend of luxury spends and digitalisation are of some of the key pillars of Titan's core growth strategy. These strategies would help Titan's three key businesses of jewellery, eyewear and watches to deliver double-digit revenue growth and gradual improvement in profitability in the near term.
- Jewellery business – Maintained target exceeding revenue by 2.5x in FY2023:** Titan's jewellery business grew by 23.6% y-o-y and EBIT grew by 30.4% in FY2019. Management has maintained the target of growing its business revenue by 2.5x in FY2023. This will be done through doubling the share in the wedding jewellery space, growing strong in the studded jewellery segment and gold exchange scheme growing by 30-35% in the coming years. In the wedding jewellery space, the company is targeting to improve penetration in the elite segment and has enhanced its focus on hyper regionalisation (expanding in markets such as UP, Bihar, Jharkhand, Odisha and West Bengal). In the studded jewellery space, the company is focusing on the high-value range of products, big thrust of affordable diamonds and is leveraging on occasions such as engagements (to grow at 4x). Thus, overall, we expect Titan's jewellery business to report an 18% CAGR over FY2019-FY2021 and its EBIT margin is expected to stand at about 12% over the same period.
- Double-digit revenue growth of watches to sustain; Increased scale of business to drive eyewear profitability:** FY2019 was one of the best years for Titan. The watches business grew by 16.8%, driven by 12% volume growth (first-

time in the past five years). EBIT margin of the business improved by 110 BPS to 10.9%. Titan remains the number one brand in the domestic watch segment, registering 23% growth in FY2019 (gained 2% market share). Other brands such as Helios, Nebula and License registered growth of 24%, 25% and 30%, respectively, during the year (E-commerce segment grew by 52%). The company's mass-end brand, Sonata sold 5.6 million watches in FY2019 and the target is to close at 6.5 million watches in FY2020. Going ahead, digitalisation is one of the key growth drivers and the company is focusing on wearables (under the Fastrack brand) and is planning to launch adventure gear watches, which will help to maintain double-digit revenue growth in the near to medium term. Improvement in profitability of the watches segment would be the function of improvement in revenue mix and higher sales volume in the coming years. The company targets double-digit volume growth and EBIT margin in upwards of 13% in the watches segment. On the other hand, revenue of the eyewear business grew by 22.6% in FY2019 mainly on account of double-digit volume growth and omni-channel

sales growing by 3x to Rs. 9 crore during the year. Management is targeting revenue of the eyewear business to grow by 20% (targeting 4.4 million customers) and is focusing on improving the profitability and increasing the share of profits through increased scale of business.

- ♦ **Valuation – Maintain Buy with a revised PT of Rs. 1,375:** We have increased our earnings estimates by ~3% and 6% for FY2020 and FY2021, respectively, to factor in higher-than-earlier-expected growth in the jewellery business. Management expects the jewellery and watches segments to deliver double-digit revenue growth in the near term and eyewear business is expected to improve profitability with scale. Taneira (handloom saree) and Skinn (fragrances) are expected to be big opportunities in the long run and will be one of the key revenue and profitability drivers by FY2023. Caratlane, subsidiary of Titan, is expected to be EBIT positive in FY2020. We expect Titan's revenue and earnings to report a CAGR of 18% and 23% over FY2019-FY2021. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 1,375 (in-line with increased earnings estimates).

#### Valuation (Consolidated)

Particulars	Rs cr				
	FY2017	FY2018	FY2019	FY2020E	FY2021E
Net Sales	13260.8	16119.8	19778.5	23434.7	27495.0
OPM (%)	8.7	10.2	11.0	11.6	11.9
Adjusted PAT (Rs. cr)	801.7	1121.3	1516.8	1901.3	2296.1
Adjusted EPS (Rs.)	9.0	12.6	17.1	21.4	25.9
PE(X)	135.6	97.2	71.8	57.2	47.4
EV/EBIDTA (X)	93.7	65.9	49.7	39.5	32.5
ROE (%)	20.7	24.1	27.2	28.1	27.5
ROCE (%)	27.2	32.3	37.2	38.3	37.7

Source: Sharekhan Research

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