

Sector: Consumer Discretionary  
Company Update

	Change
Reco: Buy	↔
CMP: Rs. 1,099	
Price Target: Rs. 1,320	↓

↑ Upgrade ↔ No change ↓ Downgrade

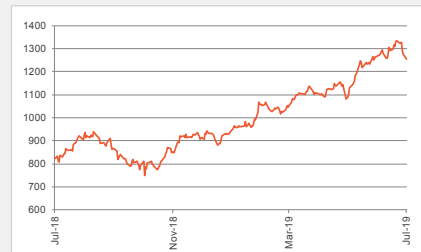
## Company details

Market cap:	Rs. 97,568 cr
52-week high/low:	Rs. 1341/732
NSE volume: (No of shares)	20.9 lakh
BSE code:	500114
NSE code:	TITAN
Sharekhan code:	TITAN
Free float: (No of shares)	41.8 cr

## Shareholding (%)

Promoters	52.9
FII	19.9
DII	7.2
Others	20.0

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-1.3	13.4	32.4	51.6
Relative to Sensex	0.7	12.9	22.3	38.0

Sharekhan Research, Bloomberg

Titan Company Limited (Titan) released its Q1FY2020 quarterly update, indicating moderating growth in its jewellery division due to increased gold prices (~8% y-o-y), which has further affected the soft demand environment. Titan registered modest growth of 13% in its jewellery division (upwards of 20% growth registered in some of the earlier quarters). However, it has maintained strong double-digit growth momentum in its other key divisions, watches and eyewear. The stock has already corrected by 10%, which is mostly factoring a modest Q1 performance. Nevertheless, with the festive season kicking in the coming quarters, we believe Titan with its track record would be able to catch up part of its revenue loss in this quarter. Further, strong growth in other key divisions (watches and eyewear) would provide support to overall performance. We maintain our Buy recommendation on the stock.

## Q1FY2020 update – Higher gold prices affected growth of the jewellery business; Performance to revive in H2FY2020

Revenue of Titan's jewellery division grew by muted ~13% in Q1FY2020 (our expectation was 16% growth), as the sharp increase in gold prices significantly dented consumer demand in June 2019. We expect moderate growth to sustain for another quarter, improving from Q3FY2020 in the backdrop of the festive/wedding season. The watches business continued and maintained its strong growth momentum with 19% revenue growth (our expectation was 8% growth), partly aided by execution of a large institutional order from Tata Consultancy Services (TCS). The eyewear business witnessed revenue growth of 13% (our expectation was 14%), aided by higher footfalls during the quarter.

## Our Call

**Valuation – Maintain Buy with a revised PT of Rs. 1,320:** We have reduced our earnings estimates by 7%/4%, respectively, for FY2020/FY2021 to factor in lower-than-earlier estimated growth in the jewellery business and have tweaked our margins to factor in the change in revenue mix. The jewellery division's growth is expected to moderate to 15% in FY2020 (earlier expectation of ~19%). Other key divisions are expected to deliver better performance with growth in mid-to-high teens in the near term. We maintain our Buy recommendation with a revised PT of Rs. 1,320 (in-line with reduction in earnings estimates).

## Valuation (Consolidated)

	Rs cr				
Particulars	FY17	FY18	FY19	FY20E	FY21E
Revenue	13,187	15,946	19,592	22,711	26,670
OPM (%)	8.7	10.2	11.0	11.0	11.7
Adjusted PAT	802	1,124	1,519	1,760	2,199
% YoY growth	18.2	40.2	35.1	15.9	24.9
Adjusted EPS (Rs.)	9.0	12.6	17.1	19.8	24.8
P/E (x)	121.7	87.2	64.4	55.4	44.4
P/B (x)	23.1	19.2	16.1	13.3	10.9
EV/EBIDTA (x)	84.0	59.1	44.6	38.2	30.4
RoNW (%)	20.7	24.1	27.2	26.3	27.0
RoCE (%)	27.2	32.3	37.2	35.9	36.9

Source: Company, Sharekhan estimates

## Jewellery – Quarterly aberration; Performance likely to revive in H2FY2020

Titan's jewellery division's revenue grew by muted ~13% in Q1FY2020 (our expectation was 16%) as the sharp increase in gold prices significantly dented consumer demand in June 2019. The wedding jewellery and studded group witnessed decent growth, while sales on the auspicious occasion of 'Akshaya Tritiya' were robust. We expect moderate growth to sustain for another quarter, improving from Q3FY2020 in the backdrop of the festive/wedding season. Thus, we expect the jewellery division to deliver about 15% revenue growth (as against earlier expectation of 18% growth) in FY2020. The shift from non-branded to branded players and increased presence in middle - income markets through new stores remain key growth drivers for the jewellery division in the near to medium term. The company added 12 new Tanishq stores (total number of stores - 301) with retail space addition of 34,000 sq. ft. in Q1FY2020.

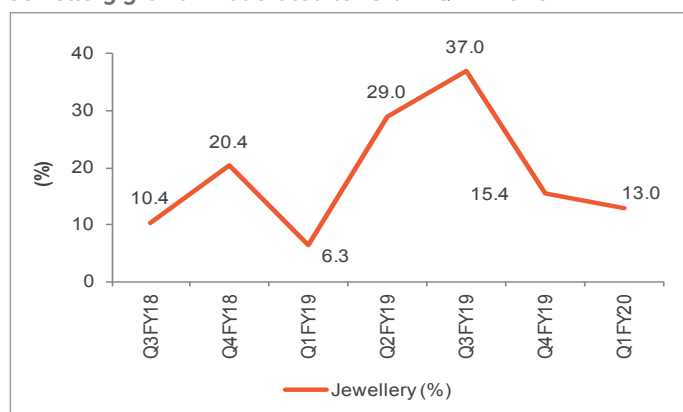
## Watches and eyewear maintained strong growth momentum

The watches business continued and maintained its strong growth momentum with revenue growth of 19% (our expectation was 8%), partly aided by execution of a large institutional order from TCS. Wearables have been the new driver for the business. E-commerce, trade and LFS channels remain growth drivers for the watches business for the June quarter. The eyewear business witnessed revenue growth of 13% (our expectation was 14%), aided by higher footfalls during the quarter. The trade channel grew faster than the overall division's growth. The business added 27 stores during the quarter and closed nine, ending with a net increase of about 12,000 sq. ft. of retail space.

## New businesses are performing well

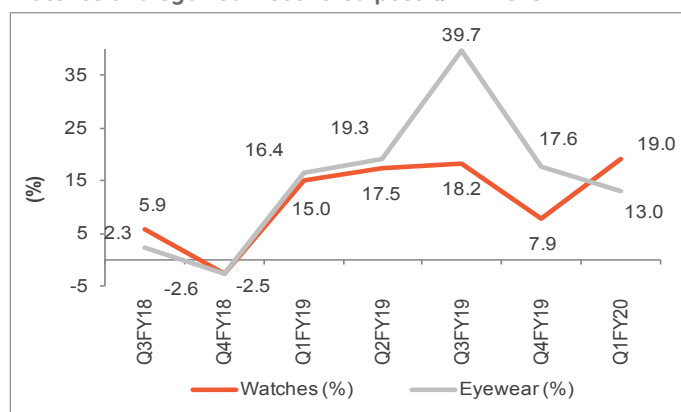
Skinn continues to increase its distribution reach and witnessed good growth during the quarter. Introduction of small packs for first-time users and e-commerce channel is aiding the brand to achieve good acceptance in the domestic market. 'Taneira' opened its flagship store in Hyderabad in a villa format, taking the total store count to five. The brand launched '1000 Summer Memories' collection of cotton sarees at very affordable price points to drive customer walk-ins and building the right perception of the brand being affordable too.

**Jewellery growth moderated to 13% in Q1FY2020**



Source: Company

**Watches and eyewear recovered post Q4FY2018**



Source: Company

## About company

Titan Company Limited is a joint venture between the Tata Group and Tamil Nadu Industrial Development Corporation (TIDCO). The company is a leading organised jeweller in India with its trusted brand Tanishq. The company started as a watch company under the brand Titan and is the fifth largest integrated own brand watch manufacturer in the world. The company's key watch brands are Titan, Fastrack and Sonata. The company is present in the eyewear segment with its brand Titan Eyeplus and in other segments such as perfumes. The company recently entered the saree market with its brand Taneira.

## Investment theme

Titan is one of India's top retailers with a strong presence in discretionary product categories such as jewellery, watches and eyewear. It is one of the top brands in the watches segment, while in the jewellery space, it is gaining good acceptance because of the shift happening from non-branded to branded space and expansion in middle income towns. It endeavors to grow by 2.5x by FY2023 in its jewellery business. Eyewear division is scaling up and will support the overall profitability in near to medium term.

## Key Risks

- ♦ **Increased gold prices:** Any further increase in gold prices would affect the profitability of the jewellery segment and earnings growth of the company.
- ♦ **Slowdown in the discretionary consumption:** Any slowdown in the discretionary consumption would act as a key risk to the demand of jewellery and watches division.
- ♦ **Increased competition in highly penetrated categories:** Increased competition in the highly penetrated categories such as watches or jewellery would act as a threat to revenue growth.

## Additional Data

### Key management personnel

Bhaskar Bhat	Managing Director
K Gnanadesikan	Chairman
N N Tata	Vice Chairman
Dinesh Shetty	Company Secretary
S Subramaniam	Chief Financial Officer

Source: Company

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Republic of India	28.1
2	Tamilnadu Industrial Development Corporation	27.9
3	Tata Sons Pvt. Ltd.	20.8
4	Jhunjhunwala Rakesh	5.7
5	Tata Investment Corp Ltd.	2.0
6	BlackRock Inc.	1.6
7	Tata Chemicals Ltd.	1.6
8	Jhunjhunwala Rekha Rakesh	1.3
9	Vanguard Group Inc.	1.3
10	Matthews International Capital Management	1.1

Source: Bloomberg

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by BNP PARIBAS

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