

Sector: Consumer Discretionary
Result Update

	Change
Reco: Buy	↔
CMP: Rs. 1284	
Price Target: Rs. 1445	↔

↑ Upgrade ↔ No change ↓ Downgrade

Company details

Market cap:	Rs. 113,992 cr
52-week high/low:	Rs. 1390/841
NSE volume: (No of shares)	25.4 lakh
BSE code:	500114
NSE code:	TITAN
Sharekhan code:	TITAN
Free float: (No of shares)	41.8 cr

Shareholding (%)

Promoters	52.9
FII	19.4
DII	8.7
Others	19.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.8	22.0	14.0	49.8
Relative to Sensex	-3.1	12.1	9.2	28.5

Sharekhan Research, Bloomberg

Titan Company's (Titan) Q2FY2020 performance was affected by spike in gold prices during June, which affected jewellery sales in July. Consolidated revenue grew by just 2% to Rs. 4,600.7 crore, with revenue of the jewellery business declining by 2%, watches business revenue growing by 6% and eyewear business revenue growing by 28.5%. Revenue of the jewellery business included hedging impact of Rs. 120 crore, as the company purchased gold before spike in prices, which was hedged at lower price. Though customers were billed at transaction day gold rates, which were higher, the company recognised revenue on the hedged price. Lower lease rental cost (due to change in accounting standards) aided OPM to improve by just 30BPS to 11.2%. Management has reduced its guidance of revenue growth for the jewellery business to 12-13% as against earlier guidance of 20% for H2FY2020. The first 33 days of Q3 (includes festive season) saw the jewellery business growing by 10%. Wedding demand (22% of jewellery sales) is expected to pick up in the coming months, helping double-digit growth in H2. Watches business is expected to grow in double digits in H2. Lower market share in the jewellery space and scope of expanding presence in middle income towns are some of the key growth levers for Titan in the near term.

Key positives

- ◆ Eyewear business revenue grew by ~29% in Q2FY2020.
- ◆ Caratlane (72.3% owned subsidiary) revenue grew by 76% in Q2FY2020, driven by strong growth in online and offline channels.
- ◆ The company added 21 Tanishq stores in H1FY2020 and plans to add another 40 in H2FY2020.

Key negatives

- ◆ Jewellery business revenue declined by 2%, affected by sudden surge in gold prices affecting demand.
- ◆ Watches segment grew by 6% as weak consumer sentiments affected demand during the quarter.

Our Call

Maintain Buy with an unchanged PT of Rs. 1,445: We have reduced our earnings estimates for FY2020 and FY2021 by 6% each to factor in lower-than-earlier estimated growth in the jewellery business and watches business. We have introduced FY2022 estimates through this note. Titan's long-term growth prospects are intact, as shift from non-branded to the branded jewellery space and extending reach in middle income towns would help Titan gain market share in the near future. The company has maintained its store expansion strategy and is focused on launching innovative products in different business verticals. We maintain our Buy recommendation on the stock with an unchanged price target (PT) of Rs. 1,445 (valuing at 35x its FY2022E EV/EBIDTA).

Key Risks

Increased gold prices: Any increase in gold prices would affect profitability of the jewellery segment and earnings growth of the company.

Valuations (Consolidated)

Particulars	Rs cr				
	FY18	FY19	FY20E	FY21E	FY22E
Revenue	15,946	19,592	21,721	25,714	30,761
OPM (%)	10.2	11.0	11.2	11.9	11.9
Adjusted PAT	1,124	1,519	1,647	2,041	2,483
% YoY growth	40.2	35.1	8.4	23.9	21.7
Adjusted EPS (Rs.)	12.6	17.1	18.5	23.0	28.0
P/E (x)	101.9	75.3	69.2	55.9	45.9
P/B (x)	22.4	18.8	16.1	13.3	10.8
EV/EBIDTA (x)	69.1	52.1	46.1	36.6	30.2
RoNW (%)	24.1	27.2	25.0	26.0	25.9
RoCE (%)	32.3	37.2	32.0	32.7	34.3

Source: Company; Sharekhan estimates

Weak performance in a tough demand environment: In Q2FY2020, Titan's consolidated revenue grew by just 2.1% y-o-y to Rs. 4,661.6 crore due to a decline in the jewellery business as a result of spike in gold prices affecting volumes. Gross margin stood flat at 29.7% due to higher gold prices. Despite higher employee expenses due to wage settlement and higher provisions for leave pay, operating efficiencies led to 30 BPS expansion in reported OPM to 11.2%. Reported operating profit grew by 5% y-o-y to Rs. 522.3 crore. Higher finance costs and depreciation due to shift to Ind AS 116 affected profit before tax (PBT), which declined by 9.1% y-o-y, standing at Rs. 427 crore. However, lower incidence of tax resulted in adjusted PAT to decline by just 2.7% y-o-y to Rs. 314.3 crore. Reported PAT came in at Rs. 311.7 crore, growing by 3.5% y-o-y for the quarter.

Jewellery business – Subdued quarter

In Q2FY2020, revenue of the jewellery business declined by 1.5% y-o-y to Rs. 3,528 crore as a result of surge in gold prices in mid-June, which impacted sales in July. However, higher promotions and schemes helped growth recover in August and September. Retail growth stood at 7%; however, 4.8% of the decline was due to hedging. Revenue of the jewellery business also included hedging revenue of Rs. 120 crore as the company purchased gold before the price hikes, which was hedged. Though customers were billed at transaction day gold rates, which were higher, the company recognised revenue on the hedged value. EBIT margin stood flat at 10.9% in Q2FY2020. Studded jewellery contributed to about 38% of overall jewellery sales during the quarter, higher than 35% of the corresponding quarter. Tanishq retail stores registered value growth of 7% with like-to-like growth of 2% during the quarter. The company added 21 Tanishq stores (67,000 square feet) in H1FY2020. Management expects to end FY2020 with 60 store additions and is likely to add another 40 stores in H2FY2020. Management expects 12-13% growth in the jewellery business in H2FY2020, which is lower than the earlier guidance of 20%.

Watches business – Revenue growth moderated to 6%; Margins dip on a y-o-y basis

Revenue growth of the watches business moderated to 6.4% y-o-y due to weak consumer sentiments, which stood at Rs. 719 crore. Value growth for World of Titan stood flat, whereas like-to-like growth declined to negative 3% and value growth for large format stores stood at 6%. Margins of the watches business were down by 225 BPS to 15.8%. Multi-brand outlets grew at a faster pace than exclusive brand outlets. Titan added 3 World of Titan, 8 Fastrack and 10 Helios stores in H1FY2020 on a net basis. We expect the watches business to maintain low double-digit revenue growth in the coming quarters.

Eyewear business – Strong revenue growth

Eyewear business registered strong growth of 28.5% y-o-y to Rs. 154 crore, driven by strong volume growth and higher customer promotions. Titan Eye+ retail stores have registered strong value growth of 35% y-o-y, driven by 28% like-to-like sales growth. 24 stores of Titan Eye+ were added in H1FY2020, adding 16,000 sq. ft. of retail space on a net basis.

Other businesses – Caratlane leads the growth

- ◆ Titan Engineering and Automation Limited (TEAL), which is a 100 % owned subsidiary, registered decent performance with revenue growth of 8.3% y-o-y. The business registered a PBIT of Rs. 16 crore in Q2FY2020 as against a Rs. 21 crore in Q2FY2019. The company expects H2 to be better on account of large orders expected to be executed in the second half.
- ◆ Caratlane (72.3% owned subsidiary) recorded robust revenue growth of 76.6% y-o-y in Q2FY2020 primarily due to strong growth in offline and online channels, the offline channel is witnessing better growth due to network expansion. The business is continuously narrowing its losses with EBIT loss standing at Rs. 4 crore in Q2FY2020 as against Rs. 13 crore in Q2FY2019. Focusing on its omni channel strategy, Caratlane added 16 stores to its network in H1FY2020, taking the total store count to 71.

Fragrances and Taneira continue to scale up

- ◆ Skinn continues to increase its distribution reach and witnessed good growth during the quarter. The brand opened a large new segment by launching premium deodorants, which have been well received in markets.
- ◆ Taneira opened its third store in Bengaluru and its first store in Pune, taking the total store count for the business to seven in four metros. The brand launched '1000 Summer Memories' collection of cotton sarees at very affordable price points to drive customer walk-ins and build the right perception of the brand being affordable in H1FY2020.

Result (Consolidated)					Rs cr	
Particulars	Q2FY20	Q2FY19	YoY %	Q1FY20	QoQ %	
Total Revenue	4661.6	4567.2	2.1	5151.1	-9.5	
Raw material cost	3274.9	3269.2	0.2	3740.4	-12.4	
Employee cost	305.1	244.3	24.9	282.6	8	
Advertising	142.8	149.3	-4.4	151.8	-5.9	
Other expenses	416.5	406.5	2.5	402.6	3.5	
Total operating cost	4139.3	4069.3	1.7	4577.5	-9.6	
Operating profit	522.3	497.9	4.9	573.6	-8.9	
Other income	31.8	27.9	13.8	57.1	-44.4	
Interest & other financial cost	44.9	13.5	-	33.9	32.5	
Depreciation	82.2	42.8	92.1	76	8.2	
Profit Before Tax	427	469.5	-9.1	520.9	-18	
Tax	112.7	146.4	-23	156	-27.8	
Adjusted PAT before MI	314.3	323.1	-2.7	364.9	-13.9	
Extraordinary item	0	20.3	-	0	-	
Minority Interest (MI)	-2.6	-1.7	-	-0.9	-	
Reported PAT	311.7	301.1	3.5	363.9	-14.4	
Adjusted EPS (Rs.)	3.5	3.6	-2.7	4.1	-13.7	
			BPS		BPS	
GPM (%)	29.7	28.4	133	27.4	236	
OPM (%)	11.2	10.9	30	11.1	7	

Source: Company; Sharekhan Research

Result (Standalone)					Rs cr	
Particulars	Q2FY20	Q2FY19	YoY %	Q1FY20	QoQ %	
Total Revenue	4435.0	4406.8	0.6	4939.7	-10.2	
Operating profit	513.2	482.1	6.4	565.3	-9.2	
Adjusted PAT before MI	320.2	325.2	-1.5	370.7	-13.6	
Adjusted EPS (Rs.)	3.6	3.7	-1.5	4.2	-13.6	
			BPS		BPS	
GPM (%)	29.2	27.8	142	26.8	240	
OPM (%)	11.6	10.9	63	11.4	13	

Source: Company; Sharekhan Research

Segmental Revenue

Particulars	Rs cr		
	Q2FY20	Q2FY19	Y-o-Y (%)
Watches	719	676	6.4
Jewellery	3528	3582	-1.5
Eyewear	154	120	28.5
Others/Corporate	65	56	16.3
Standalone	4466	4434	0.7
Caratlane	136	77	76.6
TEAL	104	96	8.3
Others/Consol. Adj	-13	-11	-
Consolidated	4693	4596	2.1

Source: Company; Sharekhan Research

Segmental EBITDA

Particulars	Rs cr		
	Q2FY20	Q2FY19	Y-o-Y (%)
Watches	113	122	-6.9
Jewellery	384	392	-2.0
Eyewear	2	-1	-
Others/Corporate	-29	-56	-
Standalone	470	456	3.0
Caratlane	-4	-13	-
TEAL	16	21	-23.8
Others/Consol. Adj	-13	-13	-
Consolidated	469	451	3.9

Source: Company; Sharekhan Research

Segmental EBITDA Margins (%)

Particulars	Y-o-Y (%)		
	Q2FY20	Q2FY19	Y-o-Y (%)
Watches	15.8	18.0	-225
Jewellery	10.9	10.9	-5
Eyewear	1.3	-0.8	212
Standalone	10.5	10.3	23
Consolidated	10.0	9.8	18

Source: Company; Sharekhan Research

Retail growth in Q2FY2020

Particulars	Sales value growth	Like-to-like growth
Tanishq	7%	2%
World of Titan	-1%	-3%
Fastrack	-7%	-12%
Helios	9%	1%
LFS (for watches)	6%	1%
Titan Eye+	35%	28%

Source: Company

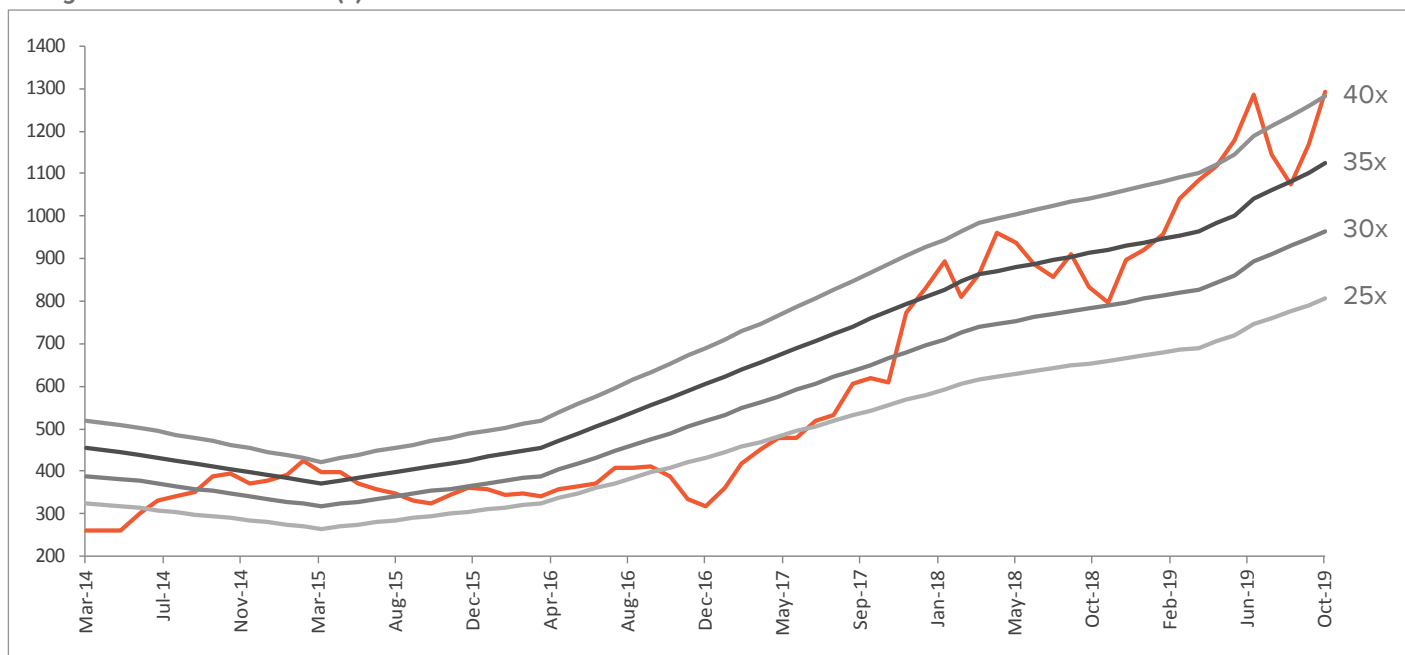
Outlook – H2FY2020 revenue to grow in low double digits

Titan’s H1FY2020 consolidated revenue grew by 9% and OPM stood at 11.2%. The performance was affected by subdued performance in Q2FY2020, affected by spike in gold prices. Management has reduced its guidance of revenue growth for the jewellery business to 12-13% as against earlier guidance of 20% for H2FY2020. The first 33 days of Q3 (includes festive season) saw the jewellery business growing by 10%. Wedding demand (22% of jewellery sales) is expected to pick up in the coming months, helping double-digit growth in H2. Watches business is expected to grow in double digits in H2. Lower market share in the jewellery space and scope of expanding presence in middle income towns are some of the key growth levers for Titan in the near term.

Valuation

We have reduced our earnings estimates for FY2020 and FY2021 by 6% each to factor in lower-than-earlier estimated growth in the jewellery business and watches business. We have introduced FY2022 estimates through this note. Titan’s long-term growth prospects are intact, as shift from non-branded to the brand jewellery space and extending reach in middle income towns would help Titan gain market share in the near future. The company has maintained its store expansion strategy and is focused on launching innovative products in different business verticals. We maintain our Buy recommendation on the stock with an unchanged PT of Rs. 1,445 (valuing at 35x its FY2022E EV/EBIDTA).

One-year forward EV/EBIDTA (x) chart



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Shoppers Stop	34.9	70.6	92.6	11.9	6.1	5.7	10.5	9.6	7.6
Trent	170.7	114.0	96.4	68.7	58.5	51.1	10.8	10.2	9.6
Titan Company	75.3	69.2	55.9	52.1	46.1	36.6	37.2	32.0	32.7

Source: Company, Sharekhan estimates

About company

Titan 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 from non-branded to the branded space and expansion in middle income towns. The company endeavors to grow by 2.5x by FY2023 in its jewellery business. The eyewear division is scaling up and will support overall profitability in the near to medium term.

Key Risks

- ◆ **Increased gold prices:** Any increase in gold prices would affect profitability of the jewellery segment and earnings growth of the company.
- ◆ **Slowdown in the discretionary consumption:** Any slowdown in 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

C K Venkataraman	Managing Director
N Muruganandam	Chairman
N N Tata	Vice Chairman
Dinesh Shetty	Company Secretary
S Subramaniam	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Republic of India	28.0
2	Tamilnadu Industrial Development Corporation	27.9
3	Tata Sons Pvt. Ltd.	20.8
4	Jhunjhunwala Rakesh	5.8
5	Tata Investment Corp Ltd.	2.0
6	BlackRock Inc.	1.7
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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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

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