

Sector: Consumer Discretionary Result Update

	Change
Reco: Buy	↔
CMP: Rs. 1,276	
Price Target: Rs. 1,500	↑

↑ Upgrade ↔ No change ↓ Downgrade

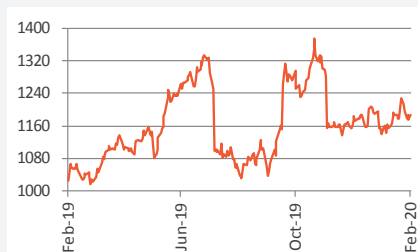
Company details

Market cap:	Rs. 113,282 cr
52-week high/low:	Rs. 1,390/999
NSE volume: (No of shares)	23.6 lakh
BSE code:	500114
NSE code:	TITAN
Sharekhan code:	TITAN
Free float: (No of shares)	41.8 cr

Shareholding (%)

Promoters	52.9
FII	19.0
DII	9.1
Others	19.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.1	-8.9	11.4	20.2
Relative to Sensex	8.2	-8.2	3.5	8.7

Sharekhan Research, Bloomberg

Titan Company's (Titan's) Q3FY2020 performance was steady with an 11% growth in revenue, with OPM (on a comparable basis) standing flat at 11.2%. Jewellery business revenue grew by ~11%, as October and November saw strong double-digit growth in jewellery sales due to the festive/wedding season. However, December was weak, affecting overall growth of the business. Despite higher gold prices, the jewellery business EBIT margins stood flat at 13%. The eyewear and watches businesses registered subdued performance in Q3 affected by a slowdown in the discretionary environment and protest in key states at fag end of the quarter. Subsidiaries (including Titan Engineering and Automation Limited [TEAL] and Caratlane) clocked double-digit revenue growth and an improvement in the profitability that supported consolidated performance. The management has guided for an 11-13% growth in the jewellery business in Q4FY2020, while the watches business would see a gradual recovery. Strong store expansion, gain in market share and a better mix will be key revenue drivers for the jewellery business in near to medium term.

Key positives

- ♦ Jewellery retail brand Tanishq saw revenue grow by 15%, driven by like-to-like sales growth of 9%.
- ♦ TEAL and Caratlane clocked a revenue growth of 34% and 69%, respectively.
- ♦ Jewellery business EBIT margins stood stable at 13%.
- ♦ The company continues to gain market share in the jewellery and watches businesses.

Key negatives

- ♦ Revenue of watches business declined by 2.4% and eyewear business grew by just 2.9%
- ♦ The impact of Ind-AS 116 stood at ~Rs. 5 crore

Our Call

Valuations – Maintain Buy with revised price target of Rs. 1,500: Titan's jewellery business registered decent performance in the backdrop of a slowdown in discretionary environment and rising gold price scenario. The company continues to gain market share in the jewellery business that gives us an indication of a gradual shift from non-branded to branded jewellery. We have fine-tuned our earnings estimates to factor in better-than-expected OPM and higher-than-expected depreciation and tax expenses. In view of long term growth prospects and Titan being one of the strong retail plays, we maintain our Buy recommendation on the stock with a revised price target of Rs. 1,500 (valuing stock at 35x its FY2022E EV/EBIDTA).

Key Risks

Any significant increase in gold prices and a sustained slowdown in the discretionary environment would act as a key risk to our earnings estimates.

Valuation (consolidated)	Rs cr				
Particulars	FY18	FY19	FY20E	FY21E	FY22E
Revenue	16,120	19,779	21,793	25,457	30,538
OPM (%)	10.2	11.0	11.7	12.2	12.4
Adjusted PAT	1,124	1,519	1,627	1,977	2,439
% YoY growth	40.2	35.1	7.1	21.5	23.4
Adjusted EPS (Rs.)	12.6	17.1	18.3	22.3	27.5
P/E (x)	101.3	74.8	69.6	57.3	46.5
P/B (x)	22.3	18.7	16.1	13.3	10.9
EV/EBIDTA (x)	68.7	51.8	44.1	36.0	29.3
RoNW (%)	24.1	27.2	24.8	25.4	25.8
RoCE (%)	32.3	37.2	32.6	32.7	34.9

Source: Company, Sharekhan Estimates

Consolidated performance - Revenues grew by 11%, margins expanded by 74 bps: In Q3FY2020, consolidated revenue grew by 11.2% y-o-y to Rs. 6,527.4 crore, driven by a 10.6% growth in the jewellery business (in line with the management's guidance) while the watches and eyewear businesses were affected by a slowdown in discretionary demand. Gross margins stood flat at 25.5% due to a rise in gold prices. Despite higher employee expenses due to wage settlement, lower other expenses and operating efficiencies led to a 74 bps expansion in reported OPM to 12%. However, the OPM on a comparable basis stood flat at 11.2% during the quarter. Reported operating profit grew by 18.5% y-o-y to Rs. 783.4 crore. Higher finance costs and depreciation due to shift to Ind-AS 116 along with lower other income affected profit before tax (PBT), which stood flat at Rs. 673.7 crore. However, lower incidence of tax resulted in adjusted PAT (after minority interest) to increase by 7% y-o-y to Rs. 492.5 crore. There was a pre-tax exceptional item of Rs. 25.2 crore pertaining to special retiral benefits payable to the retired managing director. After adjusting for exceptional items, reported PAT came in at Rs. 474.2 crore, growing by 15.4% y-o-y for the quarter.

Jewellery business – Steady quarter

Revenue of the jewellery business grew by 10.6% y-o-y to Rs. 5,408.7 crore as the industry itself witnessed good growth during the festive and wedding season the company gained market share. Growth was in double digits in October and November, whereas December saw some moderation. Retail growth stood at 15%, a large institutional order of Rs. 200 crore in the base quarter had resulted in lower reported growth of 10.6%. EBIT margin had declined by 30 bps to 13% in Q3FY2020 largely due to an increase in advertisement costs and higher management commission due to a change in the channel mix. Studded jewellery contributed to about 27% of overall jewellery sales, higher than a 25% share in the corresponding quarter. Tanishq retail stores registered value growth of 15% with like-to-like growth of 9% during the quarter. The company added 34 Tanishq stores (1,14,000 square feet) in 9MFY2020.

Watches business – Revenues declined due to slowdown, own retail stores performed well

Revenues of the watches business declined by 2.4% y-o-y to Rs. 625.3 crore due to weak consumer sentiments, which resulted in a decline in primary sales to trade and e-commerce channels. However, World of Titan (WOT) stores performed well despite a slowdown with value growth and like-to-like growth of 11% each, whereas value growth for large format stores stood at 8% (like-to-like growth of 3%). Margins of the watches business were marginally down by 20 bps to 8.3%. With enhanced focus on the wearables category, the company has acquired patented technology in the field of advance gesture recognition. Titan added 6 World of Titan, 7 Fastrack and 12 Helios stores in 9MFY2020 on a net basis. We expect the watches business to maintain low double-digit revenue growth in the coming quarters.

Eyewear business – Moderation in revenue growth

Revenue growth of the eyewear business moderated to 2.9% y-o-y to Rs. 133.3 crore due to higher competitive activity, lower primary sales to trade channels and disruption in the second-half of December due to nation-wide protests. The EBIT loss stood slightly higher at Rs. 6.7 crore in Q3FY2020 as against Rs. 1.5 crore in Q3FY2019. Titan Eye+ retail stores have registered value growth of 11% y-o-y and like-to-like sales growth of 3%. 41 stores of Titan Eye+ were added in 9MFY2020, adding 27,000 sq. ft. of retail space on a net basis.

Other businesses – Subsidiaries register strong performance

- ♦ Titan Engineering and Automation Limited (TEAL), which is a 100 % owned subsidiary, registered strong performance with revenue growth of 34% y-o-y on the back of strong order book and new orders from global clients. The business registered a PBIT of Rs. 28 crore in Q3FY2020 as against Rs. 17 crore in Q3FY2019.
- ♦ Caratlane (72.3% owned subsidiary) recorded robust revenue growth of 69% y-o-y in Q3FY2020 despite softness in the market, especially contributed by the online channel. The business turned profitable this quarter with PBIT standing at Rs. 3 crore in Q3FY2020 as against a loss of Rs. 5 crore in Q3FY2019. Focusing on its omni channel strategy, Caratlane added 27 stores to its network in 9MFY2020, taking the total store count to 82.

Fragrances and Taneira continue to scale up

- ◆ Skinn continues to increase its distribution reach and witnessed good growth of over 20% during the quarter. Perfumes were launched under the brand Fastrack during the quarter, which is receiving good response.
- ◆ Taneira opened three stores during the quarter, one each in Mumbai, Bengaluru and NCR, taking the total store count for the business to ten in five cities. The brand launched in-house designed collections called 'Courtyard Tales' and 'Chokola' during the quarter.

Key result highlights from earnings call

- ◆ The jewellery business registered good growth in Q3 contributed by a good wedding season. Good growth was witnessed in October and November (20% growth) but growth moderated in December (4% growth) post the discontinuation of offers in mid-December. Wedding jewellery contribution stood at 23% for the year. However, the growth stood ahead of the industry growth which was in high single-digits. The company continues to gain market share.
- ◆ According to the management, the first week of January was also soft for the jewellery business due to a surge in gold prices, however, demand picked up thereafter backed by activations. Jewellery business grew by 8% in January 2020. The management has maintained its revenue growth guidance of 11-13% for Q4FY2020 aided by good wedding dates in Q4. The studded jewellery ratio improved in Q3 and is expected to remain higher in Q4FY2020.
- ◆ In the jewellery business, there are three trade channels including company owned stores (L1), company owned and franchisee-managed stores (L2) and franchisee-owned and franchisee-managed stores (L3). The company has witnessed strong growth in L2 (of above 20%), while L1 and L3 saw lower growth. However, the change in channel mix resulted in higher management commission costs which marginally impacted the margins of the jewellery business.
- ◆ The watches business performed well on the retail front with own retail stores clocking good growth, however, the trade channels were under pressure due to liquidity constraints. The management expects that it will take another two to three months for the pressure to ease out. Q4FY2020 is expected to be better than Q3, especially in terms of margins.
- ◆ The company has witnessed higher growth in eastern and southern parts of India whereas slower growth in the northern and western parts.
- ◆ The company has been aggressively expanding its distribution reach across all formats and business and expects to sustain the store expansion momentum as well as plans to expand into newer cities.

Results (Consolidated)

	Rs cr				
Particulars	Q3FY20	Q3FY19	Y-o-Y (%)	Q2FY20	Q-o-Q (%)
Total Revenue	6527.4	5871.5	11.2	4661.6	40.0
Raw material cost	4861.9	4366.0	11.4	3274.9	48.5
Employee cost	326.7	249.1	31.2	305.1	7.1
Advertising	167.9	156.2	7.5	142.8	17.6
Other expenses	412.4	439.0	-6.1	416.5	-1.0
Total operating cost	5769.0	5210.3	10.7	4139.3	39.4
Operating profit	758.4	661.2	14.7	522.3	45.2
Other income	22.7	62.6	-63.8	31.8	-28.5
Interest & other financial cost	44.7	15.7	-	44.9	-0.3
Depreciation	87.7	38.5	-	82.2	6.7
Profit Before Tax	648.7	669.7	-3.1	427.0	51.9
Tax	174.0	209.5	-16.9	112.7	54.4
Adjusted PAT before MI	474.6	460.2	3.1	314.3	51.0
Extraordinary item	0.0	49.0	-	0.0	-
Minority Interest (MI)	-0.4	-0.1	-	-2.6	-
Reported PAT	474.2	411.1	15.4	311.7	52.2
Adjusted EPS (Rs.)	5.3	5.2	3.1	3.5	51.0
			BPS		BPS
GPM (%)	25.5	25.6	-13	29.7	-423
OPM (%)	11.6	11.3	36	11.2	41

Source: Company; Sharekhan Research

Result (Consolidated - Comparable)

	Rs cr		
Particulars	Q3FY20	Q3FY19	Y-o-Y (%)
Total Revenue	6527.4	5871.5	11.2
Operating profit	728.4	661.2	10.2
Interest & other financial cost	22.7	15.7	45.0
Depreciation	49.7	38.5	29.3
Profit Before Tax	678.7	669.7	1.3
Tax	180.8	209.5	-13.7
Adjusted PAT before MI	497.9	460.2	8.2
Reported PAT	479.2	411.1	16.6
Adjusted EPS (Rs.)	5.6	5.2	8.2
			BPS
GPM (%)	25.5	25.6	-13
OPM (%)	11.2	11.3	-10

Source: Company; Sharekhan Research

Result (Standalone)

	Rs cr				
Particulars	Q3FY20	Q3FY19	Y-o-Y (%)	Q2FY20	Q-o-Q (%)
Total Revenue	6206.2	5672.2	9.4	4435.0	39.9
Operating profit	761.0	584.2	30.3	513.2	48.3
Adjusted PAT before MI	488.5	416.2	17.4	320.2	52.6
Extraordinary item	18.5	0.0	-	0.0	-
Minority Interest (MI)	0.0	0.0	-	0.0	-
Reported PAT	470.0	416.2	12.9	320.2	46.8
Adjusted EPS (Rs.)	5.5	4.7	17.4	3.6	52.6
			BPS		BPS
GPM (%)	24.9	25.1	-25	29.2	-438
OPM (%)	12.3	10.3	196	11.6	69

Source: Company; Sharekhan Research

Segmental Revenue)

			Rs cr
Particulars	Q3FY20	Q3FY19	Y-o-Y (%)
Watches	625	641	-2.4
Jewellery	5409	4890	10.6
Eyewear	133	129	2.9
Others/Corporate	59	73	-19.4
Standalone	6226	5733	8.6
Caratlane	206	122	68.9
TEAL	126	94	34.0
Others/Consol. Adjusted	-7	-15	-53.3
Consolidated	6551	5934	10.4

Source: Company; Sharekhan Research

Segmental EBITDA

			Rs cr
Particulars	Q3FY20	Q3FY19	Y-o-Y (%)
Watches	52	54	-4.1
Jewellery	701	651	7.8
Eyewear	-7	-1	358.9
Others/Corporate	-69	-91	-24.0
Standalone	678	612	10.6
Caratlane	3	-5	-160.0
TEAL	28	17	64.7
Others/Consol. Adjusted	-15	-9	66.7
Consolidated	694	615	12.7

Source: Company; Sharekhan Research

Segmental EBITDA Margins (%)

Particulars	Q3FY20	Q3FY19	Y-o-Y (%)
Watches	8.3	8.5	-14.9
Jewellery	13.0	13.3	-33.6
Eyewear	-5.0	-1.1	-389.9
Standalone	10.9	10.7	20
Consolidated	10.6	10.4	22

Source: Company; Sharekhan Research

Retail growth in Q2FY2020

Particulars	Sales value growth	Like-to-like growth
Tanishq	15%	9%
Caratlane	74%	14%
World of Titan	11%	11%
Fastrack	1%	-4%
Helios	23%	12%
LFS (for watches)	8%	3%
Titan Eye+	11%	3%

Source: Company

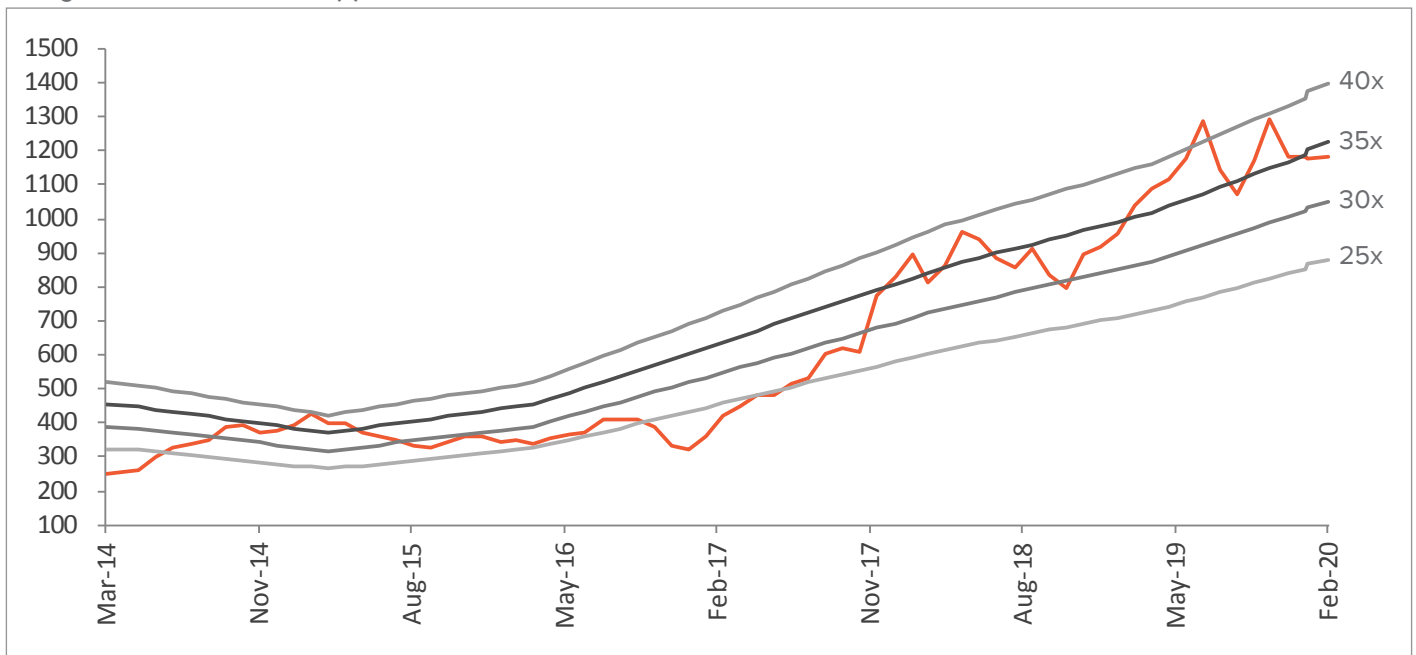
Outlook

Jewellery business to grow by 11-13% in Q4: Titan's 9MFY2020 consolidated revenue grew by 9.4% y-o-y and OPM stood at 11.5%. The management has guided for 11-13% growth in the jewellery business as wedding demand (23% of overall jewellery sales) will sustain in Q4 as well. The watches business is expected to slowly recover in terms of revenue growth. However, the margins of the watches business will be much better than Q3FY2020. Overall, we expect Titan to end FY2020 with revenue growth of around 10% and OPM of 11.7%. 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

Titan's jewellery business registered decent performance in the backdrop of a slowdown in discretionary environment and rising gold price scenario. The company continues to gain market share in the jewellery business that gives us an indication of a gradual shift from non-branded to branded jewellery. We have fine-tuned our earnings estimates to factor in better-than-expected OPM and higher-than-expected depreciation and tax expenses. In view of long term growth prospects and Titan being one of the strong retail plays, we maintain our Buy recommendation on the stock with a revised price target of Rs. 1,500 (valuing stock at 35x its FY2022E EV/EBIDTA).

One-year forward EV/EBIDTA (x)



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Shoppers Stop	37.7	76.2	100.0	12.9	6.5	6.1	10.5	9.6	7.6
Trent	166.7	129.8	97.8	75.3	32.1	27.6	11.0	13.4	11.3
Titan Company	74.8	69.6	57.3	51.8	44.1	36.0	37.2	32.6	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	Jhunjhunwala Rakesh	5.8
3	BlackRock Inc	1.6
4	Jhunjhunwala Rekha Rakesh	1.3
5	Vanguard Group Inc	1.3
6	Matthews International Capital Management	1.1
7	Artisan Partners LP	1.0
8	Sands Capital Management LLC	0.7
9	SBI Funds Management Pvt Ltd	0.7
10	UTI Asset Management Co Ltd	0.7

Source: Bloomberg

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