

May 5, 2020

## Company Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
<b>Rating</b>	<b>HOLD</b>		<b>HOLD</b>	
<b>Target Price</b>	<b>844</b>		<b>1,264</b>	
Sales (Rs. m)	1,65,190	2,20,167	2,42,772	2,82,231
% Chng.	(32.0)	(22.0)		
EBITDA (Rs. m)	17,872	26,345	28,352	33,685
% Chng.	(37.0)	(21.8)		
EPS (Rs.)	12.5	19.6	22.2	27.3
% Chng.	(43.7)	(28.1)		

### Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. bn)	191	201	165	220
EBITDA (Rs. bn)	20	23	18	26
Margin (%)	10.6	11.2	10.8	12.0
PAT (Rs. bn)	14	15	11	17
EPS (Rs.)	16.3	16.6	12.5	19.6
Gr. (%)	15.1	2.2	(24.8)	57.0
DPS (Rs.)	3.8	5.0	4.0	3.5
Yield (%)	0.4	0.6	0.4	0.4
RoE (%)	25.4	22.2	14.8	20.3
RoCE (%)	33.3	29.6	19.7	26.7
EV/Sales (x)	4.1	3.8	4.7	3.5
EV/EBITDA (x)	38.4	34.3	43.6	29.0
PE (x)	54.8	53.6	71.3	45.4
P/BV (x)	12.8	11.1	10.1	8.5

### Key Data

TITN.BO | TTAN IN

52-W High / Low	Rs.1,390 / Rs.720
Sensex / Nifty	31,715 / 9,294
Market Cap	Rs.792bn/ \$ 10,457m
Shares Outstanding	888m
3M Avg. Daily Value	Rs.7346.37m

### Shareholding Pattern (%)

Promoter's	52.91
Foreign	18.31
Domestic Institution	9.10
Public & Others	19.68
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	3.4	(31.3)	(22.1)
Relative	(7.9)	(13.0)	(4.1)

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## Near Term Headwinds on the Horizon; Hold

### Quick Pointers:

- Tanishq sales to suffer in 1HFY21 due to wipe out of FY21 wedding season, 54% lower wedding dates and 20% jump in gold prices
- Franchisee based model and strong balance sheet will enable TTAN emerge stronger once things normalize

**We are cutting FY20, FY21 and FY22 EPS estimates by 7.1%, 43.7% and 28.1% as current confluence of 1) store closures due to lockdown 2) expected cut in discretionary spends by consumer 3) 20% higher gold prices 4) 54% less wedding dates in FY21 and washout of 1Q wedding season (68% of FY21 wedding season) and 5) lower new store openings shows its impact on Jewellery sales. Our Channel checks suggest significant pressure on demand and likely rush to offload jewellery post lockdown ends and need to improve designing in a post compulsory hallmarking scenario as purity plank might not work to advantage of Tanishq.**

**Our analysis suggests that negative correlation of 0.64% (Since 2010) between gold price and jewellery demand and destruction of purchasing power due to COVID will result in 17.6% decline in sales and 21.6% decline in Jewellery EBIDTA in FY21. We expect recovery to set in from 3Q and play out in FY22 with 35% increase in sales and 42% higher EBIDTA.**

**We believe discretionary spends reduction might impact all categories like Watches, Eyewear, Fragrances and Sarees in the interim. We estimate 24.8% decline in EPS in FY21 and 57% jump in FY22 which will provide 8.7% PAT CAGR over FY20-22. We believe TTAN will continue to enjoy premium valuations and value the stock at 43x FY22 EPS and arrive at a target price of Rs844 (Rs1264 earlier). We retain hold and recommend accumulation on declines for long term gains given possibility of near term PE de-rating.**

- Jewellery: headwinds visible, long term outlook intact:** we see significant headwinds for TTAN's jewellery business in the near term and cut volume growth to -38% in FY21 and 30% in FY22. We now estimate 17.8% decline in sales and 21.6% decline in EBIDTA for Jewellery business in FY21. We expect sharp recovery from a low base to set in from 4QFY21 and estimate 41.8% EBIDTA growth in FY22.
  - Postponement of marriages in 1Q which has 68% (24 out of 35) of wedding dates in FY21
  - 54% less wedding dates in FY21 versus 76 in FY20, lowest since FY13 (33)
  - Cut in discretionary spending by consumers, non-wedding jewellery is 60% of the market, which is more discretionary in nature

- Gold Prices and jewellery demand are negatively correlated at 0.64 since 2010. 20% higher gold prices will impact demand negatively, more so in current environment, till the time consumer adjusts to new prices.
- TTAN's jewellery growth is driven by a mix of area addition and higher LTL volumes. TTAN's sales/ft peaked in 2012 (Rs175358/Sq. ft/annum) and even in Fy19, it has not crossed that level (Rs150442 Sq./ft/annum)
- Cut down in store additions in FY21 and FY22 to 25 and 40 (50 earlier)
- **Competitive intensity to ease, Franchisee model an advantage:** Current state of demand slowdown is likely to shakeout the jewellery/retail industry, including organized players. We believe that chains (large and small) operating with rented premises and high overheads will be under significant pressure. This places TTAN in advantage as it mainly operates all retail verticals (Jewellery, Watches and Eyewear) under franchisee model. Although TTAN will also suffer in the interim, we believe that it will emerge much stronger once the lockdown and Covid fear subsides.
- **COVID 19 to impact discretionary spends/sales:** COVID 19 has resulted in closure of shopping malls and markets. As Titan's entire product line (jewellery, watches, Eyewear, Fragrances, Sarees and Accessories) does not fall in the category of essential items, both production as well as sales remains suspended. we estimate that Tanishq has nearly 60% of its stores in Malls which will continue to see bigger impact as Malls will be last destinations to be reopened to public. Although social distancing should not be an issue in Tanishq stores (except on festivals), the sheer erosion in consumer purchasing power (Job losses/salary cuts) will reduce the appetite for discretionary spends and impact demand for 1HFY21.
- **Watches to see rebound from 3Q:** Watch division sales grew 1% despite the significant loss of sales in the month of March. Ecommerce was the fastest growing channel for both Q4 and full year. Titan is trying to transform the watch business by launching products catering to emerging digital segments and fitness bands etc. Although competition from foreign brands in premium segment and local brands at the discount segment sustains, expect steady low double digit growth once the post Covid scenario stabilizes.
- **Eyewear remains in investment mode:** Eye wear division revenues were lower by 20% due to decline in trade channel and lockdown (Growth in Jan and Feb was flat). Business remains in investment mode as TTAN faces high competition from players like Lenskart, Reliance Vision, GKB and host of small organized and unorganized chains. We believe that industry character is unlikely to change in the near term. Although TTAN has undertaken store rationalization and backward integration, we don't expect any meaningful contribution in the near term.
- **New segments offer potential in long term:** TTAN has been seeding new categories with limited branded presence. It was present in various accessories like Belts, wallets, backpacks etc. under Titan and Fastrack brands. Its foray into fragrances under Skinn brand and Sarees under Taneira brand have been a success, however it will take Titan quite a bit of time to scale up and achieve meaningful profitability.

**Exhibit 1: Q4FY20 Result Preview – Jewellery Volumes decline 25%, watch volumes decline 7%**

	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	QoQ gr. (%)	Remark
Sales	45,171	46,721	(3.3)	62,062	(27.2)	We estimate sales decline of 3.3% and 3.5% decline in EBIDTA as volumes take a bit hit due to higher gold prices and sales impact due to lockdown. We estimate 25% decline in jewellery volumes and 7% decline in watch volumes. Watch margins will be higher by 200bps due to low base.
EBITDA	4,397	4,556	(3.5)	7,356	(40.2)	
Margin (%)	9.7	9.8		11.9		
PBT	3,843	4,650	(17.3)	6,371	(39.7)	
Adj. PAT	3,155	3,646	(13.5)	4,699	(32.9)	
Jewellery Volume Growth (%)	-25	15.0		(5.0)		
Jewellery Margins (%)	14.4	13.3		13.0		
Watch Volume Growth (%)	(7.0)	-		(10.0)		
Watch Margins (%)	10.5	8.5		8.3		

Source: Company, PL

**Exhibit 2: FY21 EPS cut 43.7%, FY22 EPS cut of 28.1% despite 57% PAT growth in FY22**

	Current			Previous			% Chng.		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
Sales	2,00,980	1,65,190	2,20,167	2,09,073	2,42,772	2,82,231	-3.9%	-32.0%	-22.0%
EBITDA	22,538	17,872	26,345	23,622	28,352	33,685	-4.6%	-37.0%	-21.8%
PBT	19,737	14,840	23,289	21,105	26,393	32,429	-6.5%	-43.8%	-28.2%
PAT	14,763	11,100	17,427	15,754	19,724	24,225	-6.3%	-43.7%	-28.1%
EPS (Rs)	16.6	12.5	19.6	17.7	22.2	27.3	-6.3%	-43.7%	-28.1%
Jewellery vol gr (%)	(10.0)	(38.0)	30.0	0.7	11.5	11.6			
Tanishq Stores	336	361	401	356	406	456	-5.6%	-11.1%	-12.1%
Watch vol gr (%)	10.0	-22.4	16.7	7.8	7.8	7.8			
CMP: (Rs)		892							
Rating		<b>HOLD</b>			<b>HOLD</b>				
TP: (Rs)		<b>844</b>			<b>1264</b>				<b>-33.2%</b>

Source: Company, PL

**Exhibit 3: Watches margins decline 20 bps YoY; Jewellery margins contract 30bps YoY**

(Rs m)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20E
<b>Total Sales</b>	<b>39,215</b>	<b>43,231</b>	<b>44,108</b>	<b>56,977</b>	<b>46,838</b>	<b>49,471</b>	<b>44,447</b>	<b>62,167</b>	<b>44,776</b>
Watches	4,940	5,935	6,757	6,407	5,311	7,146	7,187	6253	5,361
YoY Growth	-1.7%	14.9%	17.3%	20.3%	7.5%	20.4%	6.4%	-2.4%	1.0%
Jewellery	32,921	35,717	35,821	48,903	39,855	40,474	35,278	54,087	37,848
YoY Growth	13.0%	5.7%	28.5%	39.9%	21.1%	13.3%	-1.5%	10.6%	-5.0%
Eyewear	1089	1316	1200	1295	1304	1488	1542	1333	1040
YoY Growth	-2.4%	16.4%	19.3%	43.3%	19.7%	13.1%	28.5%	2.9%	-20.2%
Others	265	263	330	372	369	363	440	494	527
YoY Growth	60.4%	31.5%	25.4%	69.7%	39.0%	37.9%	33.2%	32.6%	42.8%
<b>Total EBIT</b>	<b>4,766</b>	<b>4,933</b>	<b>4,962</b>	<b>6,920</b>	<b>5,223</b>	<b>5,397</b>	<b>4,897</b>	<b>7,375</b>	<b>5,931</b>
Watches	351	1,113	1,218	544	290	1,277	1,134	521	561
YoY Growth	190.4%	128.3%	33.2%	-34.2%	-17.6%	14.7%	-6.9%	-4.1%	93.8%
EBIT Margin	7.1%	18.8%	18.0%	8.5%	5.5%	17.9%	16.7%	8.3%	10.5%
Jewellery	4,519	3,934	3,920	6,505	5,121	4,420	3,841	7,013	5,466
YoY Growth	60.0%	16.1%	6.6%	69.1%	13.3%	12.4%	-2.0%	7.8%	6.7%
EBIT Margin	13.7%	11.0%	10.9%	13.3%	12.8%	10.9%	11.0%	13.0%	14.4%
Eyewear	23	17	-10	-15	-17	-114	20	-67	-81
YoY Growth	-78.6%	-45.1%	-174.1%	-67.0%	-172.2%	-756.9%	-299.0%	358.9%	385.2%
EBIT Margin	2.1%	1.3%	-0.8%	-1.1%	-1.3%	-7.7%	1.0%	-5.0%	-15.3%
Others	(127)	(131)	(165)	(114)	(171)	(185)	(98)	(92)	(16)

Source: Company, PL

## Jewelry: headwinds visible, long term intact

TTAN will witness a significant pressure on its jewellery business in 1HFY21 due to combined impact of higher gold prices, decline in discretionary spends due to loss of income, weakest wedding season and impact of COVID led lockdown. We are cutting store openings from 50 each in financial 2021 and 2022 to 25 and 40 stores. we are cutting jewellery volume growth to -38% and 30% for FY21 and FY22.

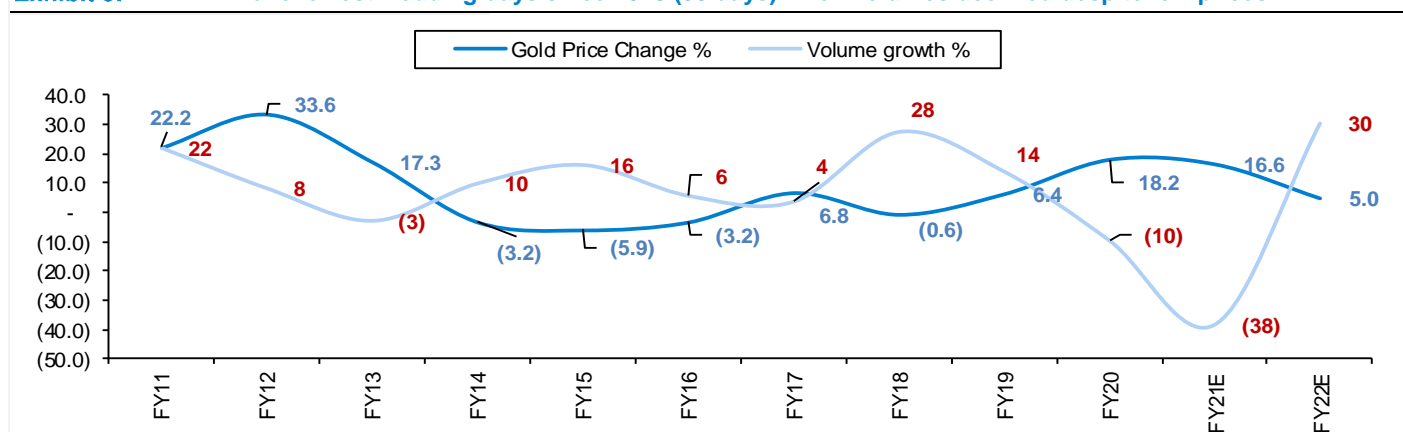
- Covid led postponement and 54% less wedding dates:** COVID 19 has resulted in postponement of marriages and cancellations of jewellery orders, as per our channel checks. We analyzed that FY21 will have only 35 marriage days in comparison to 76 in FY20. Moreover 24 out of these, i.e. 68% (Exhibit 4) will fall in 1Q21, which is likely to be wiped off due to cancellations or postponement due to COVID. We note that FY21 wedding dates at 35, are lowest since FY13 when volumes had dipped by 3% despite 12% increase in stores in FY13 and 22% over FY11-13. We believe less wedding dates will drag jewellery as this segment is 40% of total sales in India.

**Exhibit 4: FY21 has very low wedding days, 1Q will be impacted by lockdown, 8 wedding days in 9mFY21 will impact sales**

Number of Wedding Days	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Q1	30	23	8	26	21	36	24	34	29
<i>% of total</i>	44.8%	41.8%	16.7%	45.6%	45.7%	47.4%	68.6%	54.8%	45.3%
Q2	5	0	3	1	3	4	0	5	4
<i>% of total</i>	7.5%	0.0%	6.3%	1.8%	6.5%	5.3%	0.0%	8.1%	6.3%
Q3	9	9	15	15	1	12	7	13	9
<i>% of total</i>	13.4%	16.4%	31.3%	26.3%	2.2%	15.8%	20.0%	21.0%	14.1%
Q4	23	23	22	15	21	24	4	10	22
<i>% of total</i>	34.3%	41.8%	45.8%	26.3%	45.7%	31.6%	11.4%	16.1%	34.4%
<b>Total</b>	<b>67</b>	<b>55</b>	<b>48</b>	<b>57</b>	<b>46</b>	<b>76</b>	<b>35</b>	<b>62</b>	<b>64</b>

Source: Company, PL

**Exhibit 5: FY21 will have lowest wedding days since 2013 (33 days) when volumes declined despite low prices**



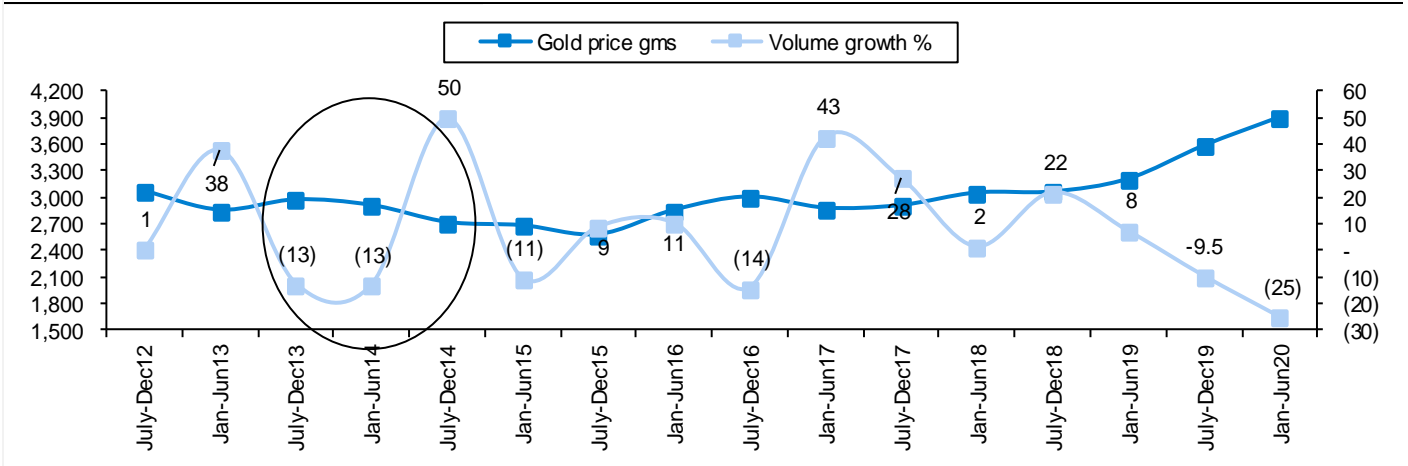
Source: Company, PL

- Lower Discretionary spending:** Decline in purchasing power due to job losses, salary cuts and loss to small businesses will impact the demand for Gold and Jewellery. Industry experts reinforce our confidence that more people will come out to sell rather than buy jewellery once the lockdown opens. We note that discretionary jewellery spending is 60% of the market and 75% for

Titan's sales, so pressure on consumer wallet will impact discretionary spends and jewellery sales in non-wedding and higher margin studded segment.

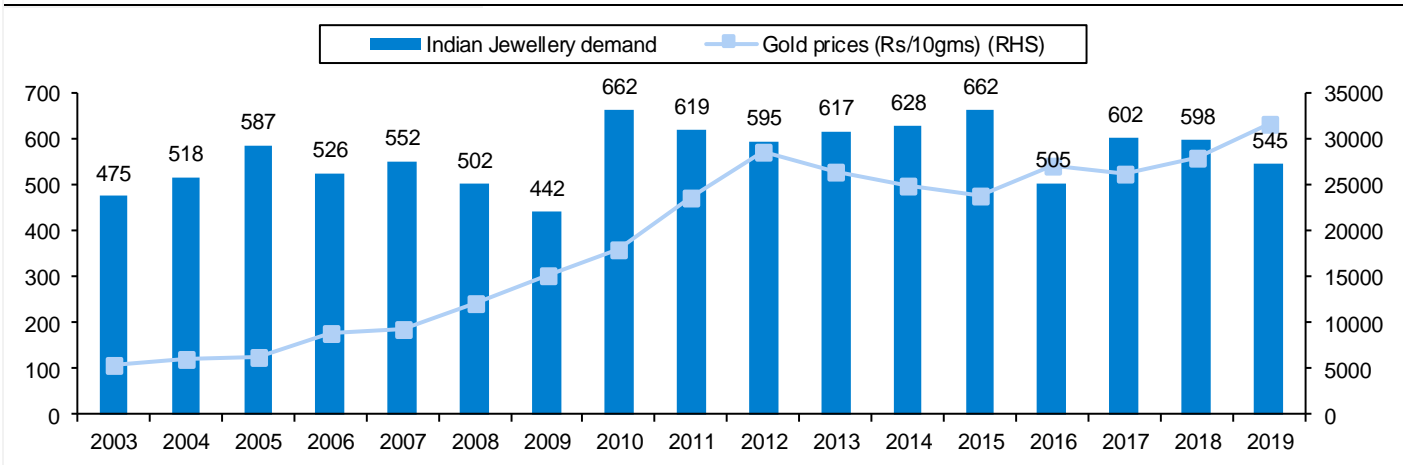
- Higher gold prices will deter demand:** Gold being a safe haven witnesses surge in demand during crisis resulting in current prices being higher by 20% YoY with recent future prices being as high as Rs 47,327/10 gram on 16<sup>th</sup> April. Our analysis of correlation of Indian Gold jewellery and overall gold demand suggest that before GFC the correlation was positive as higher prices were leading to higher demand, however post 2010, the gold prices and Indian jewellery demand is negatively correlated at -0.64. Whenever gold price increases in double digits, the demand gets impacted till the time consumer gets adjusted to new price levels. We believe sustained higher prices will result in lower demand and increase in jewellery exchange in the interim.

**Exhibit 6: Titan's Jewellery volumes are volatile and are likely to see sharp contraction in near term**

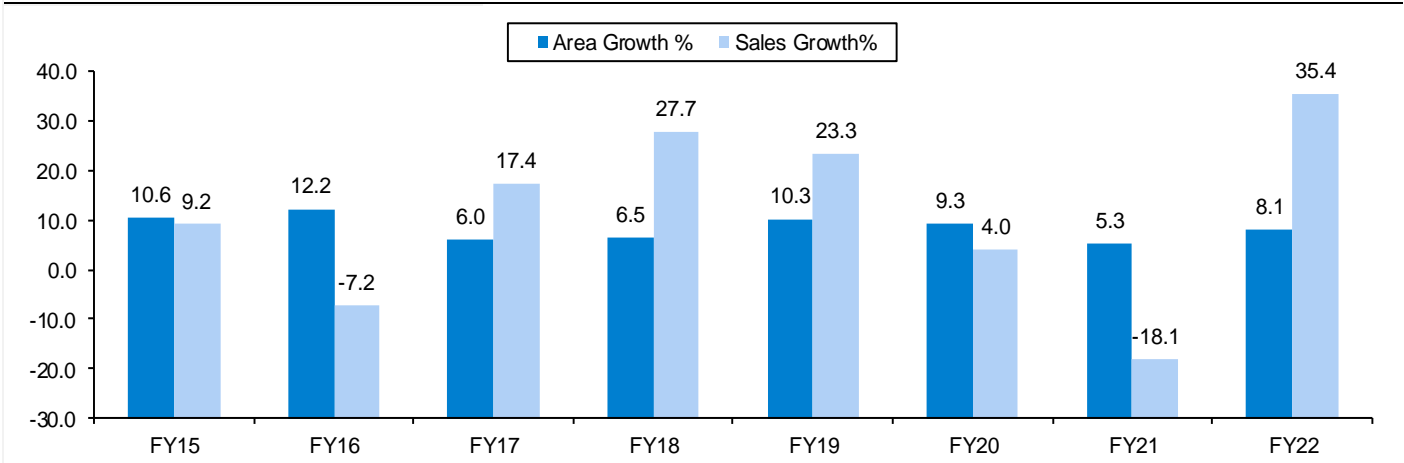


Source: Company, PL

**Exhibit 7: Gold Prices have inverse relation with gold demand and can be seen across cycles**



Source: Company, PL

**Exhibit 8: Area Growth and sales growth has been fluctuating depending upon demand dynamics**


Source: Company, PL

**Exhibit 9: Titan's sales/ft achieved in FY12 have been its peak, it is unlikely to be crossed in medium term**

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Stores	145	143	149	163	177	196	209	226	239	256	296	336	361	401
Area (Sq. ft)	237282	279510	343000	450000	595288	720123	796494	894000	948000	1010040	1114040	1218040	1283040	1387040
Growth %		17.8	22.7	31.2	32.3	21.0	10.6	12.2	6.0	6.5	10.3	9.3	5.3	8.1
Sales (Rs mn)	27563	34975	49662	69530	79424	85258	93095	86423	101441	129558	159775	166127	135993	184139
Growth %		26.9	42.0	40.0	14.2	7.3	9.2	-7.2	17.4	27.7	23.3	4.0	-18.1	35.4
Area/Store	1636	1955	2302	2761	3363	3674	3811	3956	3967	3945	3764	3625	3554	3459
Sales/ft (Avg)	116163	135353	159553	175358	151965	129629	122767	102246	110142	132334	150442	142471	108748	137927
Growth %		16.5	17.9	9.9	-13.3	-14.7	-5.3	-16.7	7.7	20.1	13.7	-5.3	-23.7	26.8

Source: Company, PL

**Exhibit 10: 3Q20: Grammage declines 5%, studded share reduces to 27%**

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	
<b>Jewellery</b>										
Volume Gr %		6	6	-3	24	20	15	6	-14	-5
Studded Share %		25	36	25	35	25	36	25	38	27
Sales Gr %		7.4%	13.0%	5.6%	28.5%	39.9%	21.1%	13.3%	-1.5%	10.6%
<b>Tanishq</b>										
Sales Gr %		15	19	8	38	34	20	16	7	15
LTL Growth %		12	17	2	32	27	14	10	2	9
Stores		243	256	262	267	277	287	299	308	321
Area (sq. Ft)		9,71,000	10,10,000	10,20,000	10,40,000	10,70,000	10,90,000	11,20,000	11,16,000	12,00,000

Source: Company, PL

## Jewellery Channel Check - 1HFY21 likely to be a washout?

We conducted channel checks with some jewelers in Mumbai and Industry Experts. Key takeaways are

- **Artisans unlikely to return in hurry:** Artisans have gone back to their natives – West Bengal & Surat etc. and are not expected to come back till the situation eases. Artisans working for small business houses are at high job risk because of the possibility of the businesses getting shut. Big corporates are unlikely to hire as they move towards leaner cost structure
- **Rush to sell Gold:** Liquidity Crunch will likely impact gold demand post lockdown as many people will come to sell their existing jewellery, this may widen the gap between buying and selling price. Most small jewellers will lose customers as they will not be able to buy back the jewellery. There will be a shift in favour of larger players as they have cash reserves to buy back jewellery
- **Demand revival** is expected once the marriage season starts in October. Wedding jewellery demand may not be impacted but festival demand is likely to see a decline
- **Studded jewellery to lose:** Studded Jewellery sales expected to be severely impacted as customers will face issues relating to re-sale of jewellery
- **Mandatory hallmarking** is likely to be a disadvantage for big players as purity differentiation will be lost provided if the local players can provide good designs at reasonable cost given their low operating cost. Covid lockdown might result in delay in implementation of compulsory hallmarking
- Big retail companies have continued to pay salaries while small players may not be able to pay and some of them will be forced to shut down as their cash reserves will be wiped out.
- Jhaveri bazar and bharat diamond bourse closed since 20<sup>th</sup> March
- **Jewellery demand** is expected to decline 50% - smaller players will be impacted more (>50% decline) while big corporates/brands are likely to witness 20-25%
- Some marriage jewelry orders were cancelled while there has been disruption in demand due to postponement of weddings
- Gold prices have seen a spike from \$1453 in 1<sup>st</sup> week of march to \$1722 currently, However, if lockdown continues and equity markets remain under pressure, gold prices can further move up.

**Exhibit 11: Watches: Sales decline 2.4% on high base of 18.8% growth**

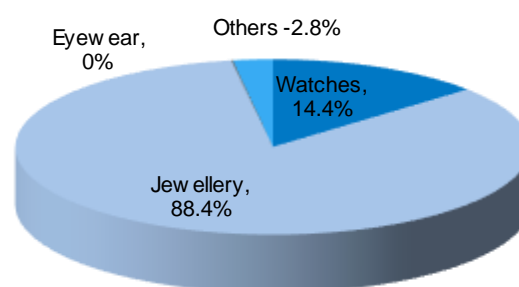
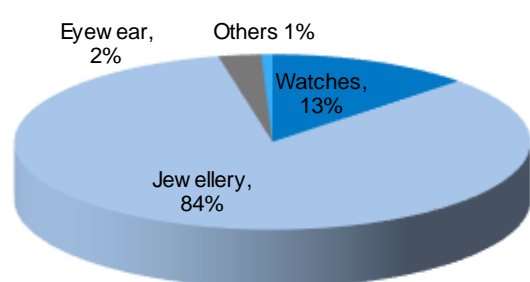
	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
<b>Watches</b>									
Sales Growth %	11	-1.7	14.9	17.3	18.8	7.5	20.4	6.4	-2.4
Volume Growth %	11	-1	10	21	16	16	13	-1	-10
<b>World Of Titan</b>									
Sales Growth %	8	-3	3	8	0	9	6	-1	11
LTL Sales growth %	7	-4	2	9	-2	7	6	-3	11
Stores	481	486	496	489	491	486	488	489	492
<b>Helios</b>									
Sales Growth %	37	32	25	45	16	14	8	9	23
LTL Sales growth %	4	5	-2	16	6	6	5	1	12
Stores	67	70	72	72	73	76	81	86	88
<b>Fastrack</b>									
Sales Growth %	10	1	4	10	4	8	4	-7	1
LTL Sales growth %	6	-6	0	6	-1	2	1	-12	-4
Stores	164	166	173	173	175	172	175	180	179
<b>LFS</b>									
Sales Growth %	11	14	17	33	20	20	16	6	8
LTL Sales growth %	6	11	12	26	15	16	12	1	-2.4

Source: Company, PL

**Exhibit 12: Eyewear sales growth moderates to single digit, store addition at 17**

<b>Eyewear</b>	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Sales Gr %	0	10	19	18	23	21	20	35	11
LTL Growth % (Titan Eye+)	1	1	8	8	13	14	14	28	3
Stores	478	500	509	513	525	537	556	561	578
Area (sq Ft)	3,27,000	3,31,000	3,37,000	3,39,000	3,47,000	3,55,000	3,67,000	3,71,000	3,81,000

Source: Company, PL

**Exhibit 13: FY19: Sales and EBIT Mix: Jewellery accounts for 84% of sales and EBIT, watches 13 and 14%**


Source: Company, PL

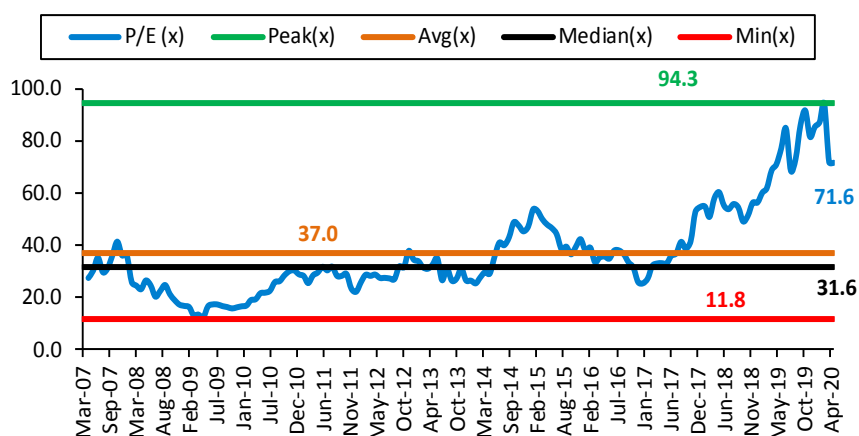


**Exhibit 14: Jewellery growth stunted in FY20 as higher gold prices hurt, Watches to see steady margin expansion**

(Rs m)	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Jewellery</b>							
Sales	87,227	1,04,850	1,30,359	1,59,775	1,67,686	1,37,843	1,86,348
Growth %	(7.4)	20.2	24.3	22.6	5.0	(17.8)	35.2
EBIDTA	8,189	11,221	15,879	20,047	21,265	16,226	23,646
Growth %	(15.6)	37.0	41.5	26.2	6.1	(23.7)	45.7
EBIDTA Margin %	9.4	10.7	12.2	12.5	12.7	11.8	12.7
<b>Watches</b>							
Sales	19,633	20,138	20,547	24,409	25,948	22,056	26,467
Growth %	2.3	2.6	2.0	18.8	6.3	(15.0)	20.0
EBIDTA	2,004	2,376	3,083	3,436	3,892	2,867	3,838
Growth %	(15.5)	18.5	29.7	11.5	13.3	(26.3)	33.8
EBIDTA Margin %	10.2	11.8	15.0	14.1	15.0	13.0	14.5
<b>Eyewear</b>							
Sales	3,733	4,128	4,139	5,049	5,403	3,512	4,565
Growth %	11.9	10.6	0.3	22.0	7.0	(35.0)	30.0
EBIDTA	283	279	159	227	108	-70	183
Growth %	(12.2)	(1.6)	(43.0)	42.9	(52.4)	(165.0)	(360.0)
EBIDTA Margin %	7.6	6.8	3.8	4.5	2.0	(2.0)	4.0
<b>Others</b>							
Sales	2,291	979	1,052	1,334	1,955	2,050	3,893
Growth %	(1.8)	(57.3)	7.4	26.9	46.5	4.8	89.9
EBIDTA	-355	-407	-426	-68	-391	-471	-389
Growth %	229.6	14.4	4.9	(84.1)	476.8	20.6	(17.4)
EBIDTA Margin %	(15.5)	(41.5)	(40.5)	(5.1)	(20.0)	(23.0)	(10.0)

Source: Company, PL

12 M Forward PE still trades at ~90% premium to LTA. however, 24 M forward PE is at 20% premium given FY21 is a depression year

**Exhibit 15: 12 M forward PE Multiples corrected 25% from Peak**


Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>1,91,011</b>	<b>2,00,980</b>	<b>1,65,190</b>	<b>2,20,167</b>
YoY gr. (%)	22.2	5.2	(17.8)	33.3
Cost of Goods Sold	1,39,872	1,47,089	1,13,216	1,54,301
Gross Profit	51,139	53,891	51,975	65,866
Margin (%)	26.8	26.8	31.5	29.9
Employee Cost	8,788	9,645	9,082	10,565
Other Expenses	7,115	9,211	14,735	17,113
<b>EBITDA</b>	<b>20,333</b>	<b>22,538</b>	<b>17,872</b>	<b>26,345</b>
YoY gr. (%)	17.1	10.8	(20.7)	47.4
Margin (%)	10.6	11.2	10.8	12.0
Depreciation and Amortization	1,389	2,831	3,128	3,433
<b>EBIT</b>	<b>18,945</b>	<b>19,706</b>	<b>14,743</b>	<b>22,912</b>
Margin (%)	9.9	9.8	8.9	10.4
Net Interest	445	1,408	1,231	1,266
Other Income	1,474	1,439	1,327	1,644
<b>Profit Before Tax</b>	<b>19,974</b>	<b>19,737</b>	<b>14,840</b>	<b>23,289</b>
Margin (%)	10.5	9.8	9.0	10.6
Total Tax	5,530	4,974	3,740	5,862
Effective tax rate (%)	27.7	25.2	25.2	25.2
<b>Profit after tax</b>	<b>14,444</b>	<b>14,763</b>	<b>11,100</b>	<b>17,427</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>14,444</b>	<b>14,763</b>	<b>11,100</b>	<b>17,427</b>
YoY gr. (%)	15.1	2.2	(24.8)	57.0
Margin (%)	7.6	7.3	6.7	7.9
Extra Ord. Income / (Exp)	(700)	-	-	-
<b>Reported PAT</b>	<b>13,744</b>	<b>14,763</b>	<b>11,100</b>	<b>17,427</b>
YoY gr. (%)	18.2	7.4	(24.8)	57.0
Margin (%)	7.2	7.3	6.7	7.9
Other Comprehensive Income	147	-	-	-
Total Comprehensive Income	13,891	14,763	11,100	17,427
<b>Equity Shares O/s (m)</b>	<b>888</b>	<b>888</b>	<b>888</b>	<b>888</b>
<b>EPS (Rs)</b>	<b>16.3</b>	<b>16.6</b>	<b>12.5</b>	<b>19.6</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>19,601</b>	<b>21,501</b>	<b>23,601</b>	<b>25,701</b>
Tangibles	18,349	20,249	22,349	24,449
Intangibles	1,253	1,253	1,253	1,253
<b>Acc: Dep / Amortization</b>	<b>8,908</b>	<b>11,513</b>	<b>14,415</b>	<b>17,622</b>
Tangibles	8,038	10,575	13,402	16,534
Intangibles	870	938	1,013	1,088
<b>Net fixed assets</b>	<b>10,694</b>	<b>9,988</b>	<b>9,186</b>	<b>8,079</b>
Tangibles	10,311	9,673	8,946	7,914
Intangibles	383	315	240	165
Capital Work In Progress	256	256	256	256
Goodwill	-	-	-	-
Non-Current Investments	9,327	10,260	11,286	12,414
Net Deferred tax assets	848	201	165	220
Other Non-Current Assets	2,721	2,797	2,876	2,960
<b>Current Assets</b>				
Investments	7,062	15,649	10,409	23,316
Inventories	67,192	70,687	74,999	86,400
Trade receivables	3,582	2,477	1,991	2,653
Cash & Bank Balance	3,641	3,489	2,611	5,003
Other Current Assets	5,946	2,512	2,065	2,752
<b>Total Assets</b>	<b>1,14,698</b>	<b>1,21,918</b>	<b>1,19,625</b>	<b>1,48,025</b>
<b>Equity</b>				
Equity Share Capital	888	888	888	888
Other Equity	60,929	70,341	77,890	92,210
<b>Total Network</b>	<b>61,817</b>	<b>71,229</b>	<b>78,778</b>	<b>93,098</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	1,189	1,407	1,156	1,541
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	30,600	27,501	21,790	29,526
Other current liabilities	21,093	21,781	17,901	23,859
<b>Total Equity &amp; Liabilities</b>	<b>1,14,698</b>	<b>1,21,917</b>	<b>1,19,625</b>	<b>1,48,025</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	19,974	19,737	14,840	23,289
Add. Depreciation	1,389	2,831	3,128	3,433
Add. Interest	477	445	1,408	1,231
Less Financial Other Income	1,474	1,439	1,327	1,644
Add. Other	(3,200)	(2,500)	(2,500)	(2,500)
Op. profit before WC changes	18,639	20,513	16,877	25,453
Net Changes-WC	(6,180)	(9,463)	(8,342)	(12,058)
Direct tax	(5,530)	(4,974)	(3,740)	(5,862)
<b>Net cash from Op. activities</b>	<b>6,929</b>	<b>6,076</b>	<b>4,796</b>	<b>7,533</b>
Capital expenditures	(2,714)	(2,208)	(2,326)	(2,326)
Interest / Dividend Income	-	-	-	-
Others	(730)	(807)	(887)	(976)
<b>Net Cash from Inv. activities</b>	<b>(3,443)</b>	<b>(3,015)</b>	<b>(3,214)</b>	<b>(3,302)</b>
Issue of share cap. / premium	2,641	2,500	2,500	2,500
Debt changes	-	-	-	-
Dividend paid	(4,007)	(5,351)	(3,551)	(3,107)
Interest paid	(477)	(445)	(1,408)	(1,231)
Others	525	82	-	-
<b>Net cash from Fin. activities</b>	<b>(1,318)</b>	<b>(3,214)</b>	<b>(2,460)</b>	<b>(1,838)</b>
<b>Net change in cash</b>	<b>2,168</b>	<b>(152)</b>	<b>(878)</b>	<b>2,393</b>
Free Cash Flow	4,216	3,868	2,469	5,207

Source: Company Data, PL Research

**Key Financial Metrics**

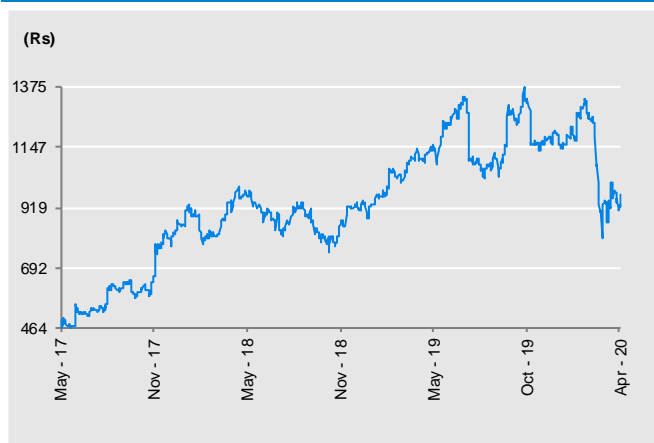
Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Per Share(Rs)</b>				
EPS	16.3	16.6	12.5	19.6
CEPS	17.8	19.8	16.0	23.5
BVPS	69.6	80.2	88.7	104.9
FCF	4.7	4.4	2.8	5.9
DPS	3.8	5.0	4.0	3.5
<b>Return Ratio(%)</b>				
RoCE	33.3	29.6	19.7	26.7
ROIC	18.2	19.2	13.8	19.1
RoE	25.4	22.2	14.8	20.3
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.2)	(0.3)	(0.2)	(0.3)
Net Working Capital (Days)	77	83	122	99
<b>Valuation(x)</b>				
PER	54.8	53.6	71.3	45.4
P/B	12.8	11.1	10.1	8.5
P/CEPS	50.0	45.0	55.6	38.0
EV/EBITDA	38.4	34.3	43.6	29.0
EV/Sales	4.1	3.8	4.7	3.5
Dividend Yield (%)	0.4	0.6	0.4	0.4

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20E
<b>Net Revenue</b>	<b>49,397</b>	<b>44,350</b>	<b>62,062</b>	<b>45,171</b>
YoY gr. (%)	14.4	0.6	9.4	(3.3)
Raw Material Expenses	36,135	31,378	46,627	32,949
Gross Profit	13,262	12,972	15,435	12,222
Margin (%)	26.8	29.2	24.9	27.1
<b>EBITDA</b>	<b>5,653</b>	<b>5,132</b>	<b>7,356</b>	<b>4,397</b>
YoY gr. (%)	14.1	3.4	12.4	(3.5)
Margin (%)	11.4	11.6	11.9	9.7
Depreciation / Depletion	681	737	777	636
<b>EBIT</b>	<b>4,972</b>	<b>4,395</b>	<b>6,579</b>	<b>3,761</b>
Margin (%)	10.1	9.9	10.6	8.3
Net Interest	303	408	405	293
Other Income	560	307	197	376
<b>Profit before Tax</b>	<b>5,229</b>	<b>4,294</b>	<b>6,371</b>	<b>3,843</b>
Margin (%)	10.6	9.7	10.3	8.5
Total Tax	1,521	1,093	1,671	689
Effective tax rate (%)	29.1	25.4	26.2	17.9
<b>Profit after Tax</b>	<b>3,707</b>	<b>3,202</b>	<b>4,699</b>	<b>3,155</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>3,707</b>	<b>3,202</b>	<b>4,699</b>	<b>3,155</b>
YoY gr. (%)	6.2	(6.8)	(3.3)	(13.5)
Margin (%)	7.5	7.2	7.6	7.0
Extra Ord. Income / (Exp)	-	-	-	(700)
<b>Reported PAT</b>	<b>3,707</b>	<b>3,202</b>	<b>4,699</b>	<b>2,455</b>
YoY gr. (%)	6.2	1.8	12.9	(16.7)
Margin (%)	7.5	7.2	7.6	5.4
Other Comprehensive Income	(837)	-	-	-
<b>Total Comprehensive Income</b>	<b>2,870</b>	<b>3,202</b>	<b>4,699</b>	<b>2,455</b>
Avg. Shares O/s (m)	888	888	888	888
<b>EPS (Rs)</b>	<b>4.2</b>	<b>3.6</b>	<b>5.3</b>	<b>3.6</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Feb-20	Hold	1,264	1,273
2	03-Jan-20	Hold	1,189	1,140
3	06-Nov-19	Hold	1,189	1,282
4	03-Oct-19	BUY	1,282	1,296
5	06-Aug-19	BUY	1,173	1,047
6	02-Aug-19	BUY	1,267	1,057
7	04-Jul-19	BUY	1,267	1,290
8	10-May-19	BUY	1,264	1,132
9	08-May-19	BUY	1,264	1,089

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,687	1,651
2	Avenue Supermarts	Reduce	1,875	2,393
3	Britannia Industries	BUY	3,744	2,837
4	Colgate Palmolive	Reduce	1,206	1,388
5	Crompton Greaves Consumer Electricals	BUY	291	224
6	Dabur India	Hold	431	503
7	Emami	Hold	285	227
8	Future Retail	Under Review	-	332
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Reduce	521	551
11	Hindustan Unilever	Hold	2,017	2,195
12	ITC	BUY	250	189
13	Jubilant FoodWorks	Accumulate	1,490	1,423
14	Kansai Nerolac Paints	BUY	486	379
15	Marico	Hold	318	284
16	Nestle India	Reduce	11,886	17,326
17	Pidilite Industries	Hold	1,327	1,349
18	Titan Company	Hold	1,264	1,273
19	Voltas	Accumulate	553	509

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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