

Sector: Consumer Discretionary
Result Update

	Change
Reco: Buy	↔
CMP: Rs. 997	
Price Target: Rs. 1,130	↔

↑ Upgrade ↔ No change ↓ Downgrade

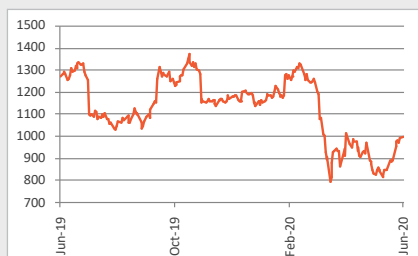
Company details

Market cap:	Rs. 88,512 cr
52-week high/low:	Rs. 1390/720
NSE volume: (No of shares)	24.1 lakh
BSE code:	500114
NSE code:	TITAN
Sharekhan code:	TITAN
Free float: (No of shares)	41.8 cr

Shareholding (%)

Promoters	52.9
FII	17.7
DII	11.1
Others	18.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	20.1	-17.2	-15.4	-22.2
Relative to Sensex	12.5	-12.4	0.7	-7.3

Sharekhan Research, Bloomberg

Titan Company Limited's (Titan) consolidated revenue (including other operating income) declined by 3.6% to Rs. 4,711.6 crore. Revenue growth during January-February stood at 16% (driven by 16.5% growth in the jewellery business). Despite the decline in revenue, consolidated gross margin improved by 255 bps, led by higher studded ratio and lowering of customer discounts. The lockdown had a significant impact on the company's store fundamentals. April witnessed a complete washout, while gradual opening of stores led to 10-15% of sales in May. Post the easing of lockdown norms, 85% of Tanishq stores and 75% of World of Titan stores (WOT) are operational. Few Tanishq stores (opened for four weeks) are doing average daily sales of 80%, while WOT stores are doing average daily sales of 45%. The company expects overall normalcy in the jewellery business by Q4FY2021. Key demand drivers for the jewellery business in the near term would be pent up demand for wedding jewellery on account of deferral of the wedding season, higher purchases in consideration of gold being the safest mode of investment in an uncertain environment and increasing traction for gold exchange schemes. Operating profit margin (OPM) will be lower in FY2021 due to lower operating leverage but strong recovery is anticipated in FY2022. Higher inventory on books led to negative operating cash flows in FY2020, which affected overall cash positioning of the company. However, the company is targeting to become net cash positive by Q3FY2021.

Key positives

- Consolidated revenue grew by 16% in January-February 2020 (better than ~9% growth in 9MFY2020).
- Consolidated gross margin improved by 255 bps and OPM improved by 102 bps on a comparable basis.
- 85% of Tanishq stores have started operations; 70% recovery has taken place in the last five weeks; full normalcy is expected by Q4FY2021.

Key negatives

- Higher inventory led to cash flows from operating activities, which stood negative at Rs. 288.1 crore as against Rs. 1,249 crore.
- The company is likely to post one-time cash flow hedging loss in Q1FY2021.

Our Call

View: Retained Buy with an unchanged PT of Rs. 1,130: We have lowered our earnings estimates for FY2021 and FY2022 by ~19% and ~6%, respectively, to factor in slow recovery in the jewellery business. Though FY2021 is expected to be lull, we expect strong recovery in FY2022 with robust recovery in demand anticipated in the jewellery and watches businesses. Strong brand positioning and stable balance sheet provide Titan an opportunity to gain market share from smaller/regional players in an uncertain environment. The stock has corrected by ~24% in the past four months factoring in near-term uncertainties. Thus, in view of long-term growth prospects and strong return profile, we maintain our Buy recommendation on the stock with an unchanged price target (PT) of Rs. 1,130.

Key Risks

Any slow recovery in the performances of key businesses such as jewellery and watches would act as a key risk to our earnings estimates.

Valuation (Consolidated)

Particulars	FY18	FY19	FY20	FY21E	FY22E
Revenue	16,120	19,779	21,052	19,023	26,319
OPM (%)	10.2	11.0	11.8	11.3	12.8
Adjusted PAT	1,124	1,519	1,519	1,293	2,176
% Y-o-Y growth	40.2	35.1	0.0	-14.9	68.3
Adjusted EPS (Rs.)	12.6	17.1	17.0	14.6	24.5
P/E (x)	79.1	58.4	58.6	68.5	40.7
P/B (x)	17.4	14.6	13.3	11.6	9.5
EV/EBIDTA (x)	53.6	40.4	36.2	41.7	26.2
RoNW (%)	24.1	27.2	23.8	18.1	25.7
RoCE (%)	32.3	37.2	30.6	21.1	31.5

Source: Company; Sharekhan estimates

Consolidated performance - Revenue declined by 3.6%, reported margin expanded by 219 bps: In Q4FY2020, Titan's consolidated revenue declined by 3.6% y-o-y to Rs. 4,711.5 crore as a result of closure of retail stores and shutdown of malls in the past few days of March. Reported revenue fell by 4.3% y-o-y to Rs. 4,617.3 crore, which was better than our as well as the street expectation. Revenue growth during January-February stood at 16.2%, with jewellery and watches businesses growing by 16.5% and 15.7%, respectively, for the period. Despite the decline in revenue, gross margin improved by 255 bps to 30.4% due to higher average making charges per gram, lower customer discounts, and favourable revenue mix. Despite higher employee costs, lower advertisement costs, and operating efficiencies led to a 219 bps expansion in reported OPM to 13%. Reported operating profit grew by ~16% y-o-y to Rs. 612.5 crore. OPM on a comparable basis expanded by 102 bps to 11.8% and comparable operating profit grew by 5.5% y-o-y to Rs. 557.5 crore. Higher finance costs and depreciation due to shift to Ind-AS 116 along with lower other income affected profit before tax (PBT), which declined by 4.2% y-o-y to Rs. 509.3 crore. Higher tax due to ineffective tax hit of about Rs. 60 crore resulted in adjusted PAT falling by 15% y-o-y to Rs. 343.2 crore despite 16% growth in operating profit. Reported PAT stood flat at Rs. 342.8 crore in Q4FY2020 due to an exceptional item of Rs. 56 crore in the base quarter.

Jewellery business – Good growth in January-February, lockdown impacted March revenue

Revenue of the jewellery business declined by 5.8% y-o-y to Rs. 3,754 crore due to closure of retail stores in March 2020. However, revenue growth for January and February stood strong at 16.5%. Retail sales for Tanishq grew by 12% for January 1-March 15, whereas sales declined by 74% in the past 15 days of March. PBT margin had increased by 109 bps to 13.6% in Q4FY2020, largely due to reduction in advertisement costs, better studded ratio, and lower customer discounts. Studded jewellery contributed to about 37% of overall jewellery sales in FY2020, higher than 35% in FY2019 (contributed ~40% in Q4FY2020). Wedding jewellery sales continued to be good until the disruption. Tanishq retail stores registered value decline of 4% with like-to-like decline of 9% during the quarter. The company added 40 Tanishq stores (1,46,000 square feet) in FY2020. The company expects to add ~25 Tanishq stores in FY2021.

Post the relaxation of the lockdown, 271 Tanishq stores out of 327 have become operational and delivered an average daily sales recovery of 80% of pre-COVID levels. The company expects to open ~90% of stores by June end. Encouraging sales recovery rate, sustenance of the Golden Harvest Scheme (contributed ~21% to jewellery sales in FY2020), increased online presence, ~35% increase in new buyers, and visible market share gains will help the company post faster recovery. With the upcoming festive season and deferred wedding demand as well as higher preference for jewellery due to the asset value of gold, the jewellery business is expected to witness recovery in H2FY2021 (especially full recovery by Q4FY2021). Pressure on margins due to higher gold prices, change in the studded mix, and lower revenue will be offset to some extent by reworking of fixed costs and optimising variable costs. Titan has identified six growth engines to drive growth in the near to medium term, which include:

- ◆ Building consumer confidence
- ◆ Focus on omni-channel and remote selling to adapt to the current situation
- ◆ Focus on lower-price bands (that form a large part of Titan's customer base) in view of slowdown in discretionary spends (affecting high-value products)
- ◆ Agile response to differential geographic opportunities
- ◆ Supporting vendors and partners
- ◆ Efficient working capital management and cost optimisation

Watches business – Reported revenue growth despite loss of sales in March

Revenue of the watches business grew by 5% y-o-y to Rs. 557 crore despite significant loss of sales in March due to the lockdown. Revenue growth for January and February stood strong at 15.7%, driven by good growth in the e-commerce channel. Retail stores of WOT and Fastrack and large format stores reported decline in sales value growth as well as like-to-like growth of 7-15%, whereas Helios retail sales grew by 10% with like-to-like sales declining by 3%. However, retail sales grew by 5% and 23%, respectively, for WOT and Helios stores from January 1-March 15 and declined by over 70% each for the past 15 days of March. PBT margin of the watches business improved significantly to 11.9% due to higher gross margins and reduction in advertisement costs. Titan added 13 WOT, 11 Fastrack, and 16 Helios stores in FY2020 on net basis.

Post the relaxation of the lockdown, 576 retail stores have become operational in-line with safety and social distancing norms, which are delivering 48% recovery of pre-COVID average daily sales. 50% of the trade channel is also operational and delivering 30% of pre-COVID sales. However, only 11% of large format stores have opened as majority stores are located in malls, which remained shut. E-commerce channels, including market place and own brand websites, have posted healthy recovery of over 75% each. Omni-channel is live in 165 stores, with video shopping, endless aisle and buy-online and pick up in store services. Walk-ins have ramped up faster in towns as compared to metro cities. The average selling price has grown in double digits in May across all channels. Differentiated collection, stronger play in the upcoming wearables segment, premiumisation, growing omni-channels, and relooking at costs will help the watches business post faster recovery.

Eyewear business – Subdued quarter

Revenue of the eyewear business declined by 17.4% y-o-y to Rs. 108 crore due to lower primary sales to trade channels and disruption in the second-half of March due to nationwide lockdown. Revenue growth for January and February was flat. Titan Eye+ reported an 8% decline in retail sales and 16% decline in like-to-like sales. However, retail sales grew by 8% for Titan Eye+ stores for the period of January 1-March 15 and declined by 74% for the past 15 days of March. PBT loss stood at Rs. 3 crore in Q4FY2020 as against Rs. 2 crore in Q4FY2019. 47 stores of Titan Eye+ were added in FY2020, adding 31,000 sq. ft. of retail space on net basis. Titan launched signature frames, smart eyewear, and clear sight lens during the quarter.

Post the relaxation of the lockdown, 469 retail stores have become operational, which are delivering 44% average daily sales recovery of pre-COVID levels. 60% recovery was observed as of May with respect to February sales, which was achieved by almost 50% of the stores. Online ordering in the eyewear space grew by 5x post the lockdown. Value products, scale-down/exit of loss-making stores and market places, efficient assortment and cost-control measures will help the eyewear business post faster recovery.

Other businesses grew by 12%; Fragrances and Taneira continue to scale up

- ♦ Fastrack perfumes continue to increase their distribution reach and is now available across over 1,800 outlets.
- ♦ Taneira opened two stores during the quarter, one each in Mumbai and Bangalore, taking the total store count for the business to 12 in five cities. Post the lockdown, five stores have reopened with average daily sales of 28% of pre-COVID levels.

Subsidiaries registered strong performance

- ♦ Titan Engineering and Automation Limited (TEAL), which is a 100% owned subsidiary, registered strong performance with revenue growth of 37.6% y-o-y to Rs. 139 crore on account of good performance by both automation and aerospace and defense divisions. The business registered PBT of Rs. 21 crore in Q4FY2020 as against Rs. 19 crore in Q4FY2019.
- ♦ Caratlane (72.3% owned subsidiary) recorded revenue growth of 12.3% y-o-y in Q4FY2020 to Rs. 155 crore due to disruptions in March as most stores are located in malls. However, Caratlane reported strong revenue growth of 48% in January-February. The business continued to improve its bottom line with pre-tax loss reducing to Rs. 9 crore in Q4FY2020 as against a loss of Rs. 21 crore in Q4FY2019. The company launched two diamond jewellery collections in Q4 – Mandala and Royal Romance, both of which had good response from customers. Focusing on its omni-channel strategy, Caratlane added 37 stores to its network in FY2020, taking the total store count to 92. Post the relaxation of the lockdown, 65 stores have become operational, which delivered 122% of average daily sales recovery of pre-COVID levels.

Other conference call highlights:

- ♦ Titan is targeting a ~15% reduction in fixed costs. Managing customer discounts, reduction in discretionary spends, rental negotiations, and optimising other expenses will help margins to sustain in the near to medium term. Margins for FY2021 are expected to remain slightly lower due to lower operating leverage. However, strong margin recovery is expected in FY2022.
- ♦ Contribution from the Golden Harvest and Gold Exchange Schemes to jewellery revenue increased to ~21% and ~33%, respectively, in FY2020 from ~17% and ~28%, respectively, in FY2018. Contribution of high-value studded jewellery to overall revenue stood at ~10%, whereas contribution from the wedding portfolio stood at ~23% in FY2020 (up from ~21% in FY2019).

- ◆ The company witnessed strong traction/recovery in smaller towns as compared to metro cities, especially in the jewellery business. April 2020 was a complete washout, 10-15% recovery was witnessed in May, and 30-40% recovery is expected in June 2020. Average daily sales in stores that have opened are coming back on track.
- ◆ ~45% of gold is exchanged gold, 10-15% is outright purchase, and ~40% of the gold purchase is gold on lease. The company is expecting to maximise gold on lease to drive capital efficiency.
- ◆ Cash balance reduced to Rs. 87 crore as of FY2020 from Rs. 430 crore in FY2019 mainly because of no revenue in the past 15 days of March and change in gold sourcing from leasing to exchange. The company used to get a six-month credit on gold taken on lease, whereas now the funding of gold is done through cash, which impacted cash on hand. It also resulted in an increase in capital employed. However, with gold resale and deferment on gold on lease, the compact expects to turn net cash positive from Q3FY2021.

Results (Consolidated)

Particulars	Rs cr				
	Q4FY20	Q4FY19	Y-o-Y (%)	Q3FY20	Q-o-Q (%)
Total Revenue	4711.5	4888.8	-3.6	6527.4	-27.8
Raw material cost	3277.9	3525.7	-7.0	4861.9	-32.6
Employee cost	284.7	252.6	12.7	301.7	-5.6
Advertising	97.1	138.3	-29.8	167.9	-42.2
Other expenses	439.3	443.7	-1.0	412.4	6.5
Total operating cost	4099.1	4360.3	-6.0	5744.0	-28.6
Operating profit	612.5	528.5	15.9	783.4	-21.8
Other income	41.7	56.3	-25.9	22.7	83.8
Interest & other financial cost	42.7	12.5	-	44.7	-4.4
Depreciation	102.1	40.8	-	87.7	16.4
Profit Before Tax	509.3	531.5	-4.2	673.7	-24.4
Tax	166.2	127.2	30.6	180.8	-8.1
Adjusted PAT before MI	343.2	404.2	-15.1	492.9	-30.4
Extraordinary item	0.3	56.0	-	18.3	-
Minority Interest (MI)	-0.1	0.0	-	-0.4	-
Reported PAT	342.8	348.2	-1.6	474.2	-27.7
Adjusted EPS (Rs.)	3.9	4.6	-15.1	5.6	-30.4
			bps		bps
GPM (%)	30.4	27.9	255	25.5	491
OPM (%)	13.0	10.8	219	12.0	100

Source: Company; Sharekhan Research

Result Snapshot (Consolidated - Comparable)

Particulars	Rs cr		
	Q4FY20	Q4FY19	Y-o-Y (%)
Total Revenue	4711.5	4888.8	-3.6
Operating profit	557.5	528.5	5.5
Interest & other financial cost	20.7	12.5	66.1
Depreciation	68.1	40.8	66.7
Profit Before Tax	517.3	531.5	-2.7
Tax	166.2	127.2	30.6
Adjusted PAT before MI	351.2	404.2	-13.1
Reported PAT	351.1	348.2	0.8
Adjusted EPS (Rs.)	4.0	4.6	-13.2
			bps
GPM (%)	30.4	27.9	255
OPM (%)	11.8	10.8	102

Source: Company; Sharekhan Research

Result Snapshot (Standalone)

Particulars	Rs cr				
	Q4FY20	Q4FY19	Y-o-Y (%)	Q3FY20	Q-o-Q (%)
Total Revenue	4428.8	4672.1	-5.2	6206.2	-28.6
Operating profit	603.7	455.6	32.5	761.0	-20.7
Adjusted PAT before MI	356.8	345.0	3.4	488.5	-27.0
Extraordinary item	0.0	50.4	-	18.5	-
Minority Interest (MI)	0.0	0.0	-	0.0	-
Reported PAT	356.8	294.6	21.1	470.0	-24.1
Adjusted EPS (Rs.)	4.0	3.9	3.4	5.5	-27.0
			bps		bps
GPM (%)	30.1	27.2	283	24.9	518
OPM (%)	13.6	9.8	388	12.3	137

Source: Company; Sharekhan Research

Segmental Revenue

Particulars	Rs cr					
	Q4FY20	Q4FY19	Y-o-Y (%)	FY2020	FY2019	Growth (%)
Watches	557	531	4.9	2615	2441	7.1
Jewellery	3754	3986	-5.8	16738	16030	4.4
Eyewear	108	130	-17.4	544	511	6.5
Others/Corporate	50	80	-37.8	258	267	-3.4
Standalone	4469	4727	-5.5	20155	19249	4.7
Caratlane	155	138	12.3	629	421	49.4
TEAL	139	101	37.6	464	346	34.1
Others/Consol. Adj	-9	-21	-	-43	-54	-
Consolidated	4754	4945	-3.9	21205	19962	6.2

Source: Company; Sharekhan Research

Segmental PBT

Particulars	Rs cr					
	Q4FY20	Q4FY19	Y-o-Y (%)	FY2020	FY2019	Growth (%)
Watches	66	29	127.6	345	316	9.2
Jewellery	512	500	2.4	1968	1905	3.3
Eyewear	-3	-2	-	-29	-2	-
Others/Corporate	-54	-132	-	-179	-222	-
Standalone	521	395	31.9	2105	1997	5.4
Caratlane	-9	-16	-	-27	-46	-
TEAL	21	19	10.5	78	58	34.5
Others/Consol. Adj	-19	-17	-	-54	-52	-
Consolidated	514	381	34.9	2102	1957	7.4

Source: Company; Sharekhan Research

Segmental PBT Margins (%)

Particulars	bps					
	Q4FY20	Q4FY19	bps	FY2020	FY2019	bps
Watches	11.9	5.5	639	13.2	12.9	25
Jewellery	13.6	12.5	109	11.8	11.9	-13
Eyewear	-	-	-	-	-	-
Standalone	11.7	8.4	330	10.4	10.4	7
Consolidated	10.8	7.7	311	9.9	9.8	11

Source: Company; Sharekhan Research

Retail growth in Q4FY2020

Particulars	Q4FY2020		FY2020	
	Sales value growth	Like-to-like growth	Sales value growth	Like-to-like growth
Tanishq	-4%	-9%	9%	3%
Caratlane	15%	-25%	58%	9%
World of Titan	-7%	-9%	3%	2%
Fastrack	-10%	-12%	-3%	-6%
Helios	10%	-3%	13%	4%
LFS (for watches)	-9%	-15%	5%	3%
Titan Eye+	-8%	-16%	8%	1%

Source: Company

Retail sales growth in pre and post lockdown period

Channels	Retail sales growth		
	Q3FY2020	Jan 01-March 15, 2020	March 16-March 31,2020
World of Titan	11%	5%	-77%
Helios	23%	23%	-75%
Large Format Stores	6%	5%	-92%
Tanishq	15%	12%	-74%
Caratlane	71%	36%	-81%
Titan Eye+	11%	8%	-74%

Source: Company

Sales recovery rate after 4 weeks of opening of lockdown

Channels	No of stores opened	Share of format sale (%)	Rs cr
			% sale of avg daily sales
World of Titan	380	75	45
Fastrack	132	73	46
Helios	52	56	105
Tanishq	271	82	80
Caratlane	65	73	122
Titan Eye+	469	80	44
Taneira	5	56	28

Source: Company

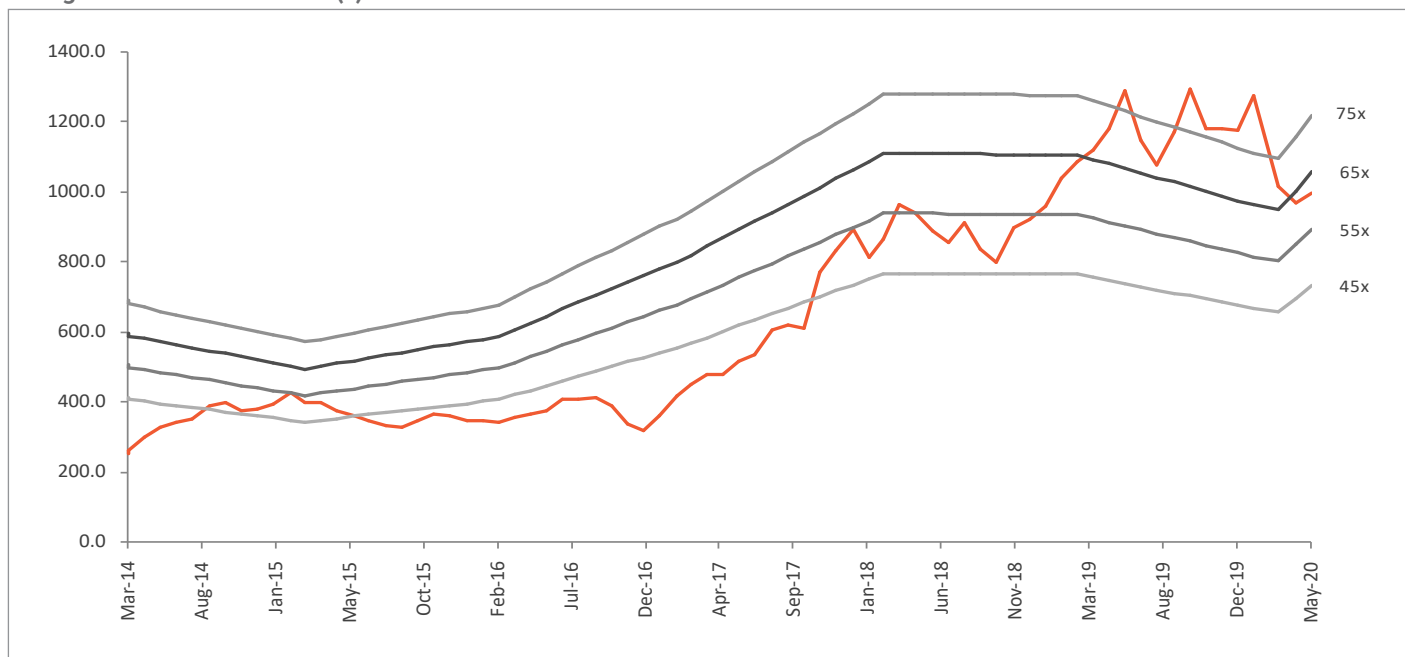
Outlook

FY2021 is expected to lull; Strong recovery anticipated in FY2022: Titan's FY2020 revenue grew by just 6.4% mainly on account of lower demand for gold jewellery due to spike in gold prices and Q4 affected by the lockdown in the fag-end of the quarter. Lockdown led to no sales in April due to closure of stores while gradual pick-up has been seen in May with 78% of total stores opening under various brands that are under operation. The company expects overall normalcy in the jewellery business by Q4FY2021. Key demand drivers for the jewellery business in the near term would be pent up demand for wedding jewellery on account of deferment of the wedding season, higher purchases in consideration of gold being the safest mode of investment in an uncertain environment and increasing traction for gold exchange schemes. OPM will be lower in FY2021 due to lower operating leverage but strong recovery is anticipated in FY2022.

Valuation

Retained Buy with an unchanged PT of Rs. 1,130: We have lowered our earnings estimates for FY2021 and FY2022 by ~19% and ~6%, respectively, to factor in slow recovery in the jewellery business. Though FY2021 is expected to be lull, we expect strong recovery in FY2022 with robust recovery in demand anticipated in the jewellery and watches businesses. Strong brand positioning and stable balance sheet provide Titan an opportunity to gain market share from smaller/regional players in an uncertain environment. The stock has corrected by ~24% in the past four months factoring in near-term uncertainties. Thus, in view of long-term growth prospects and strong return profile, we maintain our Buy recommendation on the stock with an unchanged price target (PT) of Rs. 1,130.

One-year forward EV/EBIDTA (x)



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Trent	127.8	151.4	67.8	29.4	33.2	22.5	13.8	8.0	12.0
Titan Company	58.6	68.5	40.7	36.2	41.7	26.2	30.6	21.1	31.5

Source: Company, Sharekhan estimates

About company

Titan is a joint venture between 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. The company 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 endeavours 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 discretionary consumption:** Any slowdown in discretionary consumption would act as a key risk to demand of the 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
S Subramaniam	Chief Financial Officer
Dinesh Shetty	Company Secretary

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Republic of India	28.0
2	Jhunjhunwala Rakesh	5.8
3	BlackRock Inc	1.5
4	Jhunjhunwala Rekha Rakesh	1.3
5	Vanguard Group Inc	1.3
6	Matthews International Capital Management	1.1
7	SBI Funds Management Pvt Ltd	1.0
8	Artisan Partners LP	1.0
9	Sands Capital Management LLC	0.7
10	UTI Asset Management Co Ltd	0.6

Source: Bloomberg

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