Titan Company

BSE SENSEX	S&P CNX
37,607	11,073

Stock Info

Bloomberg	TTAN IN
Equity Shares (m)	888
M.Cap.(INRb)/(USDb)	926.2 / 12.4
52-Week Range (INR)	1390 / 720
1, 6, 12 Rel. Per (%)	2/-5/-2
12M Avg Val (INR M)	3375

Financials Snapshot (INR b)

Y/E Dec	2020	2021E	2022E
Sales	210.5	170.8	236.6
Sales Gr. (%)	6.4	-18.9	38.5
EBITDA	24.9	17.2	28.8
Margins (%)	11.8	10.0	12.2
Adj. PAT	15.2	10.0	18.5
Adj. EPS (INR)	17.1	11.3	20.8
EPS Gr. (%)	8.9	-33.8	83.9
BV/Sh.(INR)	75.2	78.0	88.4
Ratios			
RoE (%)	23.8	14.7	25.0
RoCE (%)	22.5	13.3	22.5
Payout (%)	23.8	45.0	50.0
Valuations			
P/E (x)	61.1	92.3	50.2
P/BV (x)	13.9	13.4	11.8
EV/EBITDA (x)	37.2	53.6	31.6
Div. Yield (%)	0.4	0.5	1.0

CMP: INR1,043 TP: INR1,215 (+16%) Upgrade to Buy

Opportunity remains significant in difficult times

Strong growth engines to gain market share from struggling peers

- FY20 was a challenging year with high gold prices affecting 1QFY20 and the COVID-19 crisis disrupting 4QFY20. Amid this tough operating environment, however, overall topline and earnings growth for Titan Company (TTAN) remained healthy at 6.4% and 8.9%, respectively. This continues a strong trend witnessed in recent years as a result of which sales and PAT CAGRs over FY17–20 were also impressive at 17% and 24%, respectively, .
- Response to the COVID-19 crisis has also been heartening, with clear communication on safety and the addition of two new growth engines – digital thrust and lower price point products. This is besides the already identified growth engines in recent years: (a) gold exchange, (b) wedding jewellery, (c) high-value diamond jewellery, (d) middle-India store expansions, (e) the 'Golden Harvest' scheme, and (f) focus on low-market cities. Barring high-value jewellery sales, we note that all of these growth engines are at play in FY21 as well.
- Gains from unorganized and other organized players continued unabated in FY20 and remain promising going forward as well. At less than 10% of the overall jewellery market, TTAN remains well-placed to capture further market share. This is particularly attributable to unorganized and several organized players challenged by: (a) the lack of credit, (b) weakening balance sheets, and (c) the lack of trust.
- Innovation and the new launch pipeline continued to be strong across categories in FY20.
- Beyond the near-term impacts of the lockdown and gold price spurt, gold jewellery demand is likely to remain healthy on account of: (a) the stored asset value of gold and its safe-haven value in times of uncertainty, (b) wedding demand being postponed, but not lost, and (c) the likelihood of consumer spend on jewellery increasing with other avenues of indulgence (such as travel) being restricted.

Valuation and view

- Post our downgrade to Neutral in Nov'19, the stock (down ~20%; ~25% off its erstwhile peak) has significantly underperformed our coverage universe as well as discretionary peers such as APNT, PIDI, JUBI, and UNSP.
- While 1HFY21 is expected to remain weak, we expect recovery in 3QFY21, faster than the company's guidance of 4QFY21. This is attributed to: (a) the bunching up of postponed wedding demand, in addition to traditionally strong demand for wedding jewellery, in 3Q and (b) festive demand.
- We don't expect discretionary demand to show a V-shaped recovery in the near term but the price correction (25% from peak) offers a great opportunity for long term investors to accumulate TTAN. This is because it offers a very high quality franchise to play the evolving long term discretionary consumption theme in India. Also, the structural reforms like

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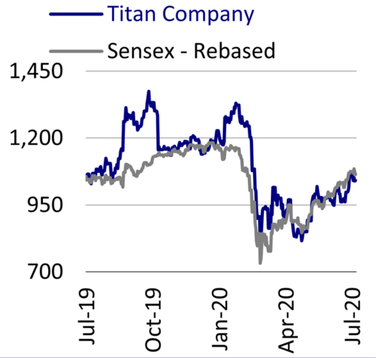
Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	52.9	52.9	52.9
DII	11.2	11.1	6.9
FII	17.6	17.7	19.6
Others	18.4	18.3	20.6

FII Includes depository receipts

Stock Performance (1-year)



GST and heightened regulatory crackdown (PAN Card, Hallmarking, GST etc,) have created structural headwinds for unorganized players. At the same time, even regional branded players like TBZ, Kalyan, PCJ and Joy Allukkas have failed to make a dent. Thus, TTAN remains the sole pan-national branded player in India's large jewellery market (INR2t). TTAN is poised to become bigger as it continues to be a beneficiary of structural underlying trend of unorganized to organized shift.

- Store expansions continue unabated, indicating the company and franchisees' confidence on medium- and long-term growth prospects. This would further increase the opportunity to gain from unorganized and other organized players who are expected to struggle even more going forward (barring in 1QFY21, wherein they may gain ephemerally due to windfall gains on unhedged gold).
- TTAN's medium-to-long term earnings growth opportunity is best-of-breed, reflected in the ~24% EPS CAGR over the past three years. There is a strong runway for growth going forward given TTAN's market share of less than 10% and the continuing struggles of unorganized and other organized peers.
- While recent spurt in gold prices leads to some near term postponement of demand, TTAN has historically done well in the past when gold prices surged. During 2008-13, when gold prices went up by 24.8% CAGR, TTAN's jewellery EBIT and overall PAT grew at a CAGR of 49.7% and 35.6%, respectively. During the same period, its share price grew by 32% CAGR. Also since TTAN's making charges are also based percentage of value of gold, margins will improve after a lag.
- As FY22 multiples at 50x may appear to provide a challenging entry point for investment, our upgrade to **Buy** may consequently appear to be an early one. However, this is primarily due to the temporary impact of the pandemic in FY21, from which the rebound would be sharp.
- Upgrade to **Buy**, with TP of INR1,215 (55x Jun'22 EPS).

Exhibit 1: TTAN has delivered strong sales, EBITDA, and PAT growth over the last 3/5/10 years

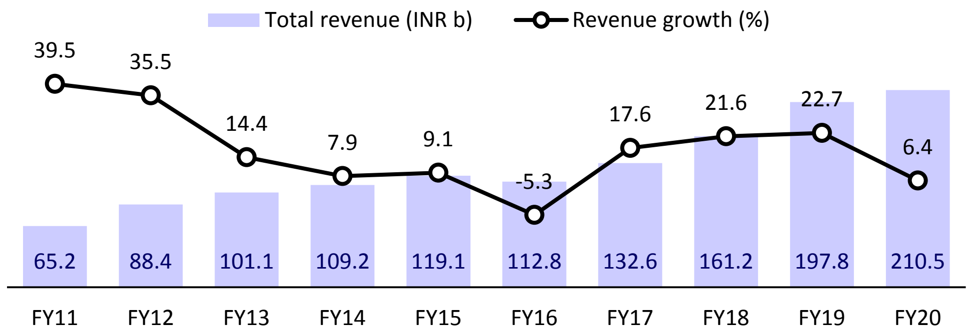
Y/E March (INR b)	FY10	FY15	FY17	FY20	10Y CAGR (%)	5Y CAGR (%)	3Y CAGR (%)
Total Revenue	**46.8**	**119.1**	**132.6**	**210.5**	**16.2**	**12.1**	**16.7**
Gross Profit	12.7	31.6	37.5	59.0	16.6	13.3	16.2
Gross Margin (%)	27.3	26.5	28.3	28.0	76 bps	151 bps	-29 bps
EBIDTA	**3.8**	**11.6**	**11.6**	**24.9**	**20.6**	**16.5**	**29.2**
Margin (%)	8.2	9.7	8.7	11.8	365 bps	210 bps	312 bps
Profit after Taxes	**1.1**	**3.6**	**3.5**	**6.6**	**19.2**	**13.0**	**23.6**
Margin (%)	2.4	3.0	2.6	3.1	70 bps	12 bps	50 bps
CFO	**3.4**	**5.0**	**17.1**	**-3.3**	**-**	**-**	**-**
FCF	3.0	3.0	14.6	-6.9	-	-	-

Source: MOFSL, Company

FY20 performance

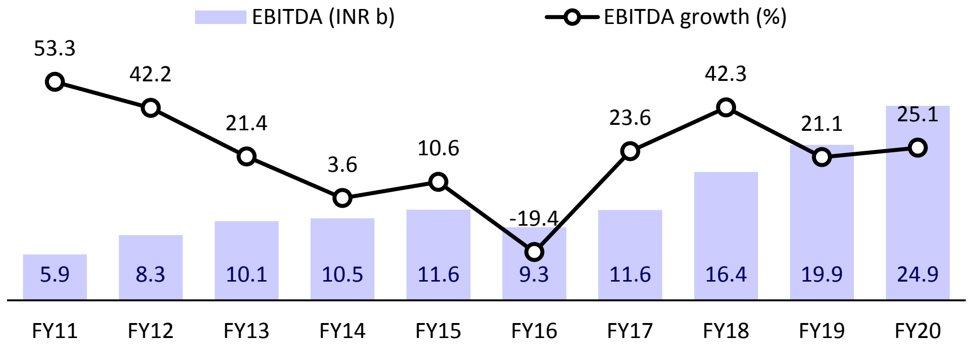
- Performance was good before the lockdown and had seen a recovery after a tough 1QFY20 on account of gold prices.
- In the third quarter and the first two months of the fourth quarter, the company delivered an improved performance, in line with growth targets, particularly for the Watches and Wearables divisions. This was driven by product innovation and its strong presence on e-commerce channels.
- Against a tough operating backdrop, TTAN delivered a fairly satisfactory financial performance in FY20. Consolidated net sales grew 6.4% YoY to INR210.5b in FY20 and standalone revenue from operations 4.9% YoY to INR200b.
- The company achieved significant success in reining in overheads to levels similar to FY19, despite the addition of new stores across various businesses. This enabled it to safeguard its profitability, with consol. EBITDA growth of 25.1% YoY to INR24.9b in FY20 (also aided by Ind-AS 116 accounting implemented in FY20 which overstates EBITDA but had negligible impact at the PBT and PAT level).
- Consol adj. profit after tax was up by 8.9% YoY to INR15.2b.

Exhibit 2: TTAN's consolidated sales grew 6.4% YoY to INR210.5b in FY20



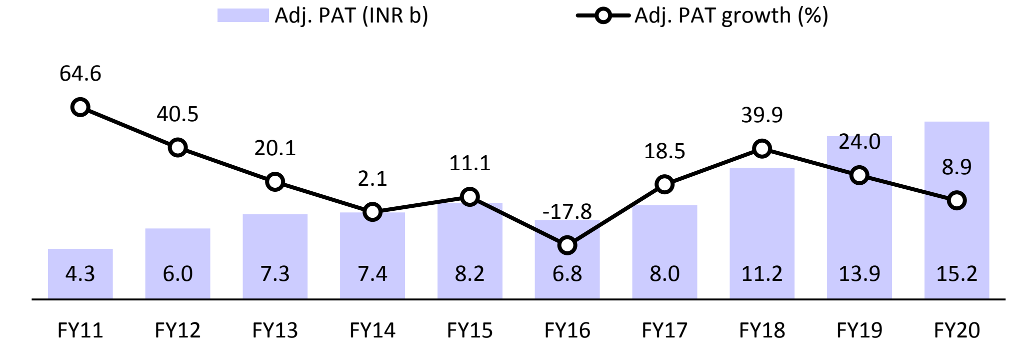
Source: Company, MOFSL

Exhibit 3: TTAN's consolidated EBITDA grew 25.1% YoY to INR24.9b in FY20



Source: Company, MOFSL

Exhibit 4: TTAN's consolidated PAT grew 8.9% YoY to INR15.2b in FY20



Source: Company, MOFSL

Innovation highlights in FY20

Jewellery

- In FY20, creativity highlights consisted of 'Ahalya,' a high-value diamond necklace collection, and the 'Virasat' collection in the plain gold category for the Diwali festival – inspired by the heritage and artistry of the royal city of Udaipur.
- Targeted at young women, the brand Mia offers trendy designs at affordable price points. New launches in the year comprised: (a) 'Mia Classics', a diamond-intensive collection,; (b) 'Smolitaires', a collection of single-stone finger rings; and (c) the 'Sassy Silver' collection. CaratLane is a fast-growing omni-channel jewellery brand offering modern, everyday designs. It launched several new collections at affordable price points.

Exhibit 5: Virasat collection inspired by Udaipur heritage…

Source: MOFSL, Company

Exhibit 6: …Swayahm collection for women launched in FY20

Source: MOFSL, Company

Other businesses

- Several smart products were also launched, including Titan Connected, a full touchscreen smartwatch with analog hands.
- Under the Titan Raga brand for women, new creations included: (a) the 'Raga Cocktails' collection, with Swarovski crystals at the premium end, (b) 'Raga Viva III' at affordable prices, and (c) 'Raga Facets', inspired by the amalgamation of different shapes, materials, finishes, and colors.
- In Eyewear, a major launch was the 'Titan Signature' collection in the category of frames. Marking a presence in the High-end Fashion segment, the in-house design collection has reportedly received a very enthusiastic response from customers.
- In Eyewear, the company also introduced in-house designed Titan lens 'Clear Sight'.

- In 'Taneira', the company aimed to bring about differentiation into the unorganized Saree market. During the year, Taneira launched the '1000 Summer Memories' collection of cotton sarees at very affordable price points to drive customer walk-ins and build the right brand perception. The brand also added a new collection of unstitched suit sets, along with in-house designed festive and workwear saree collections.

Exhibit 7: Raga collection for women

Source: MOFSL, Company

Exhibit 8: Fastrack launched the 'Reflex Beat' activity tracker

Source: MOFSL, Company

Exhibit 9: 'Titan Signature' collection launched in Eyewear

Source: MOFSL, Company

Exhibit 10: Fastrack launched perfumes

Source: MOFSL, Company

Commentary on outlook

- **Uncertain demand** – With most of Titan's products being discretionary and in the 'Touch-and-Feel' category, sales are likely to be under additional pressure during this period of uncertainty.
- **Finding avenues for growth –** The company is focusing on finding ways to become more customer-focused and efficient. It has implemented stringent safety measures across stores, which would help in reassuring customers and moving toward normalcy at a much faster pace.
- **Reimagining customer convenience –** TTAN is accelerating its omni-channel marketing strategy, with renewed focus on e-commerce, as online shopping expands. Furthermore, it is reimagining customer convenience by offering options such as 'Try@Home', 'endless aisle', to video shopping.
- **Creating a portfolio at an affordable price point –** In Jewellery, extensive work is being undertaken to create a strong portfolio at an affordable price point.
- **High consumer interest in gold jewellery would continue in the medium term on account of:**
  - The stored asset value of gold and its safe-haven value in times of uncertainty.

- Wedding demand being deferred, but not lost, with only short-term hiccups
- Precious jewellery purchases being linked to numerous traditions and auspicious rituals
- High levels of trust in the Tanishq, Titan, and Tata brands
- The aspirations of middle-class India, which continue to be high, reviving once the pandemic-led crisis is overcome
- There being a strong possibility of revival in the Indian economy after a year-long pause; this would result in favor of discretionary spending categories, and a strong brand such as Tanishq would benefit greatly
- Multiple environmental factors driving the industry into consolidation (even more so post-crisis), thus benefiting the organized sector and players with strong balance sheets; the Division would once again see continued benefit from this
- The six engines of growth still have considerable potential to fire given the high growth opportunity in each of these domains.

- **Two more growth engines added to the six core engines**
  - **Digital thrust:** A strong technology-led digital omni-play would be driven by the jewellery division to capitalize on the shift in consumer behavior post the lockdown relaxation.
  - **Lower price point:** The focus would be on introducing attractive lower price point products in the core segments. This is due to gold prices running higher and some customer segments having curtailed their budgets due to the current economic challenges.
- **Positives emerging out of the crisis**
  - Following the outbreak of the pandemic, the perception of gold as an asset class has improved considerably.
  - Large-scale weddings and international holiday travel are expected to reduce, freeing up funds for jewellery purchases.
  - The company further believes India may witness a spree of 'indulgence consumption' after the lockdown is lifted and the situation is near-normal.

Risk of high gold prices on ROCEs, and management response

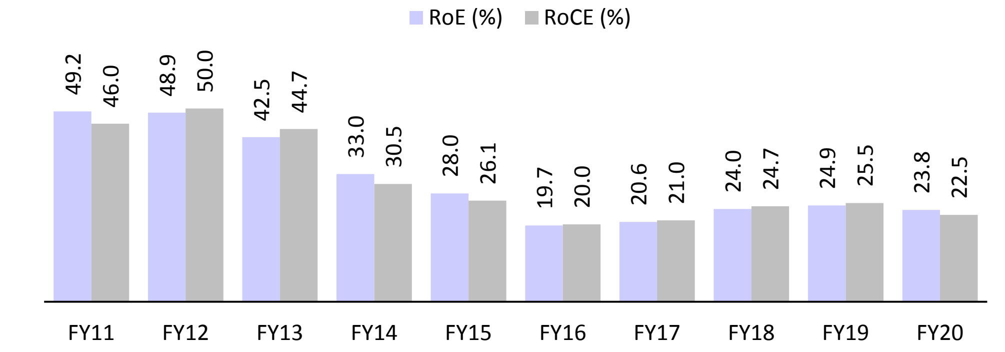
- The secondary impact of a sharp rise in gold prices led to the ballooning of inventory and capital employed, adversely impacting RoCEs. On average, inventory days increased by 11, whereas debtor and creditor days fell by 1 and 6, respectively. This led to the cash conversion cycle increasing by 17 days in FY20.
- To mitigate this risk, the Jewellery division has introduced a fortnightly review mechanism to enable early and quick action, to cut back on inventory in tune with lower demand.
- The plunge in demand would be managed through more optimized promotions and cost control to protect operating margins.

Exhibit 11: On average, TTAN's cash conversion cycle increased by 17 days to 90 days in FY20, led by inventory and creditors

Days (average basis)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Inventory days	93	101	118	126	121	138	129	123	120	131
Debtor days	6	6	6	5	5	6	6	6	7	6
Creditor days	69	75	72	49	42	58	59	58	53	47
Cash conversion cycle	**30**	**31**	**52**	**82**	**84**	**86**	**75**	**70**	**73**	**90**

Source: MOFSL, Company:

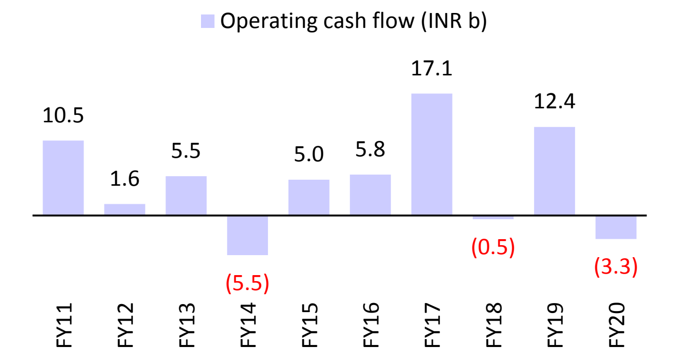
Exhibit 12: TTAN's RoE and RoCE declined by 110bp and 310bp YoY, respectively, in FY20



Source: Company, MOFSL

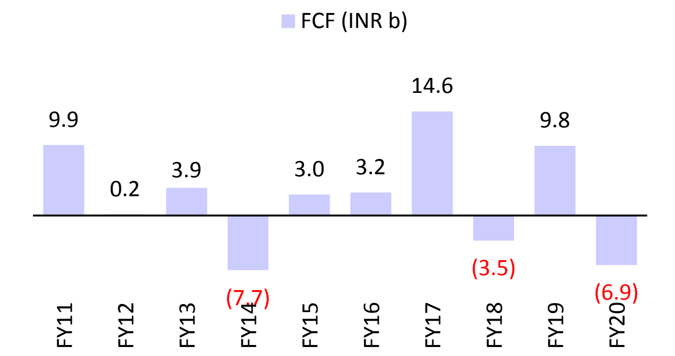
- The worsening of the working capital cycle also impacted operating cash flow (OCF) and free cash flow (FCF).
- In FY20, OCF turned negative to -INR3.3b v/s positive INR12.4b in FY19.
- Similarly, FCF stood at -INR6.9b in FY20 v/s INR9.8b in FY19.

Exhibit 13: OCF declined to -INR3.3b…



Source: MOFSL, Company

Exhibit 14: …and FCF declined to -INR6.9b in FY20



Source: MOFSL, Company

Jewellery: Focus on technology to rise in a tough operating environment

- TTAN is harnessing its digital capabilities, such as video selling, Augmented Reality, and Virtual Reality to make it easier for customers to connect with their products and make purchases online.
- During the pandemic, the company quickly rolled out endless aisles across Tanishq stores, wherein customers have access to large touchscreens to browse the entire collection.
- Also, with jewellery products being in the touch-and-feel category, the aim is to bring the retail store to customers. CaratLane offers the 'Try@Home' service, which has now been extended to the company's other jewellery brands as well.

- Management believes the acceleration of digital efforts would help the company overcome the challenges of operating in the new normal as well as capitalize on new opportunities.
- Data and analytics – The company is working toward rapidly enhancing its data warehousing and analytics and insights capabilities to deliver significant measurable business value. This would help in continuously generating customer insights from data across touchpoints and deploying cutting-edge AI/ML algorithms to identify the next-best actions and recommendations that are communicated to customers through outbound campaigns.

Industry opportunities

Eyewear

- The Eyewear industry is estimated at INR110b (Spectacles 73%, Sunglasses 21%, and Contact Lenses 6%). It is growing at 5%, of which organized retail (chains) stands at about 22%.
- Industry growth has come largely from new entrants at the national and regional levels, which have rapidly set up new stores in the last few years.

Fragrances

- The Fragrances industry size is estimated to be INR43b, with Deodorants accounting for INR31b, i.e., 70% of industry, and Fine Fragrances for INR12b.
- Deodorants being 70% of the category presents continued opportunity to upgrade customers from Deodorants to Perfumes.

Insights from TTAN’s third year of integrated reporting

- Three years ago, TTAN decided to voluntarily report comprehensive data on non-financial performance, which is still vital to stakeholders.
- Intellectual capital – Design and innovation
  - Some of the noteworthy innovations are Reflex WAV (slimmest gesture-control band), SF RUSH (a smart band), Titan “Radar” (Smart Wallet), etc.
  - Taneira (the Indian Dress Wear brand) represents the celebration of diverse textiles and workmanship in India. With sarees made out of pure and natural fabrics, the brand offers more than 5,000 sarees across 50 regions in India. Apart from sarees, Taneira also offers bridal wear, lehengas, stoles, and dupattas.

Takeaways from Management Discussion and Analysis (MD&A)

Jewellery industry – Unorganized segment continues to cede market share to organized

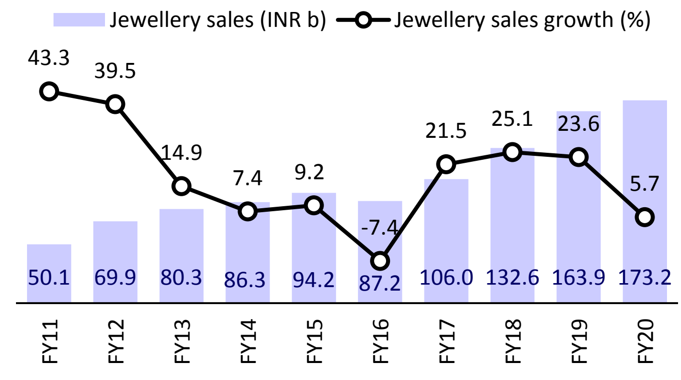
- On the demand side, macroeconomic conditions, coupled with high volatility and large increases in gold prices, have led to pressure on jewellery retail sales.
- On the supply side, tight bank credit norms have resulted in continued pressure on industry operations, particularly on medium and small players.
- The overall jewellery market declined, with unorganized players (declining by -5% to -15%) losing share to national chains. Gold imports declined 14% YoY over 2019–20.

- The Jewellery division was growing in the early double digits up to mid-March. Thereafter, the phased closure of stores resulted in growth declining to 4% for the year.

Jewellery segment

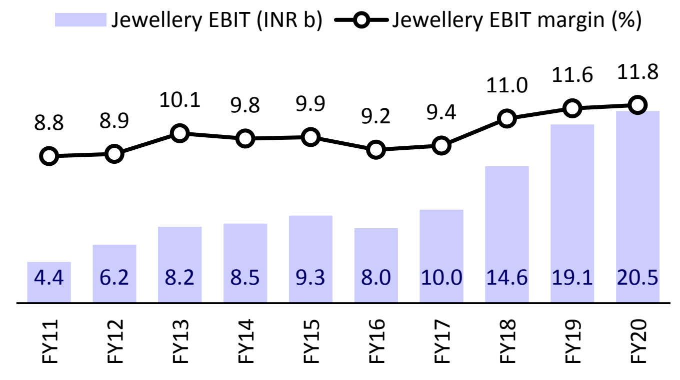
- The Jewellery division was particularly hit toward the end of the first quarter and substantially in the second quarter of the year. This was attributed to a sharp rise in gold prices, with consumers adopting the wait-and-watch approach to time their purchases of gold jewellery. Growth picked up well in the third quarter and the first two months of the fourth quarter. However, with the advent of COVID-19, activity started to slow sharply in March, with the lockdown driving the closure of its stores for most of the second half of March.
- **Most of the six engines of growth continue to fire well:**
  - The Wedding segment continued to grow, aided by deeper reach in select ethnic communities, exciting new collections, aggressive promotions, and a sustained national brand-building effort.
  - In the High-Value Diamond Jewellery segment, while substantial gains were made in the >INR1m price category, aided by a new product collection, this engine saw significant slowdown in growth in FY20 and is likely to remain muted in FY21.
  - The “Middle India” store expansion program was sustained with 41 new Tanishq stores added in a year, many of these in tier 3 and tier 4 towns.
  - The Gold Exchange Program received significantly more traction in FY20 as more customers realized Tanishq’s exceptional value offering and complete transparency in the process. This was further fueled by high gold prices and higher Wedding segment sales.
  - The Golden Harvest jewellery purchase plan continued to enable wallet share gains and aid growth in the overall business.
  - “Low-market-share cities” continue to pay dividends as the division broadens and deepens its local connect through multiple initiatives in select markets.

Exhibit 15: Jewellery sales grew 5.7% YoY to INR173.2b…



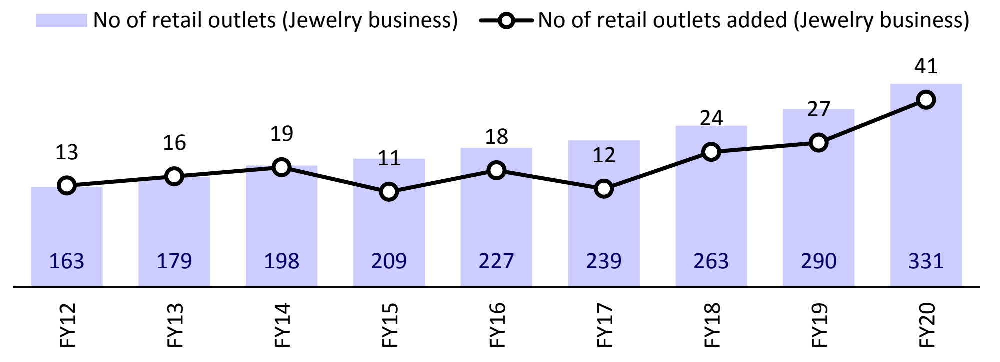
Source: Company, MOFSL

Exhibit 16: …and EBIT margins improved to 11.8% in FY20



Source: Company, MOFSL

Exhibit 17: Added 41 new Tanishq stores in FY20, taking total jewellery store count to 331

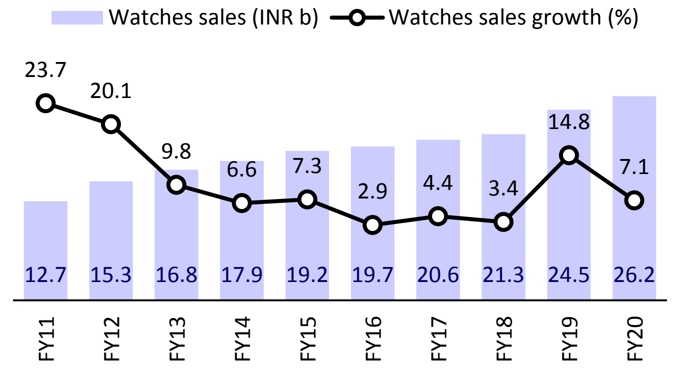


Source: MOFSL, Company

Watches and Wearables

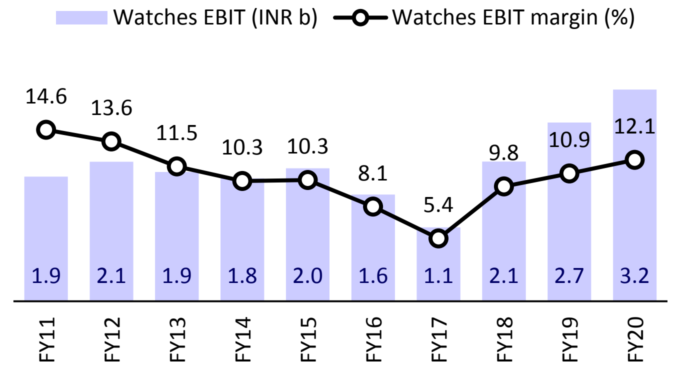
- The Watches and Wearables division has been in the process of transforming itself over the last three years as it faces rapid tectonic shifts enabled by technology. While mature and traditional products, channels, and business models continue to be sources of growth and profit, the division has also started adopting and leveraging new product categories such as Wearables and adopting new channels such as e-commerce. The division took on the target of rapid growth despite already having high market share (around 50%). Its robust portfolio of brands such as Titan, Sonata, and Fastrack and international brands such as Tommy Hilfiger has served the division well in the last few years.
- The company's smart play, strengthened by several new impactful launches, led to Titan retaining the second position in the Wearables market in India.

Exhibit 18: Watches sales grew 7.1% YoY to 26.2b…



Source: MOFSL, Company

Exhibit 19: …and its EBIT margins improved to 12.1% in FY20



Source: MOFSL, Company

Eyewear and Fragrances

- The Eyewear division did well in the first half of the year, but declined sharply in the second half, affected by its performance in the distribution channels.
- Fragrances grew well at 24%, with the year witnessing the launch of perfumes at affordable price points under the Fastrack brand.

Exhibit 20: TTAN expanded its network across businesses in FY20

	Stores at end of FY19	Stores added in FY20	Stores at end of FY20	Number of towns
Tanishq	287	40	327	204
Zoya	3	1	4	3
CaratLane	55	37	92	33
Mia	30	8	38	19
World of Titan	486	13	499	221
Fastrack	172	11	183	85
Helios	76	16	92	42
Titan EyePlus	537	47	584	229
Taneira	4	8	12	5

Source: MOFSL, Company

Other updates

- **Expanding to the Gulf region –** In FY20, the company's Jewellery business in the GCC region was studied in detail owing to its similarity with India. After a careful study, Dubai was chosen to pilot the international launch of Tanishq. Two legal entities were incorporated in this regard; the necessary tie-ups (such as banking and logistics) have also been put in place to enable the start of operations with the first Tanishq store in the first quarter of the current financial year, subject to the normalization of the COVID-19 situation.
- **New business performance** – New businesses, viz. Indian Dress Wear and Fragrances and Accessories recorded revenue of INR1.18b, implying growth of 46% YoY. While the Indian Dress Wear division grew by 102% YoY, the Fragrances and Accessories division recorded growth of 27% YoY.
- **Favre-Leuba update** – During FY20, Favre-Leuba AG registered turnover of CHF0.87m (INR62.5m) (FY19: CHF1m or INR68.2m). Its loss in FY20 stood at CHF7.19m (INR 510.3m) (FY19: CHF7.39m or INR521.8m). In FY20, the company invested CHF8.76m in Favre-Leuba AG's share capital.
- **Tata Engineering financials –** In FY20, Titan Engineering & Automation Limited (TEAL)'s income increased 34.7% YoY to INR4.62b whereas its profit before tax increased 34.6% YoY to INR781.2m.
- **CaratLane business –** CaratLane added 37 stores in the year to take the store count to 92. In FY20, CaratLane registered turnover of INR6.2b (FY19: INR4.2b) whereas its loss stood at INR272.7m, against FY19's loss of INR461.3m.
- **Montblanc** – In FY20, Montblanc registered turnover of INR574.5m, with loss amounting to INR48.7m. During the year, TTAN invested an additional INR77.4m through rights issue in Montblanc.

Other highlights

Remuneration of key management personnel

Exhibit 21: Remuneration of key management personnel in FY20

(INR m)	Designation	FY19	FY20	YoY (%)
Mr Bhaskar Bhat	MD (until 30.09.2019)	69.3	62.3	-10.1*
Mr C K Venkataraman	MD (from 01.10.2019)	-	36.0	-
Mr S Subramaniam	CFO	36.1	36.1	0.0
Mr Dinesh Shetty	CS (from 03.08.2018)	5.5	11.7	112.7
Mr A R Rajaram	CS (from 30.06.2018)	11.6	-	-

*not annualized Source: Company, MOFSL

- In FY20, capital R&D expenditure was down 35.3% YoY to INR24m and recurring R&D expenditure was down 4.2% YoY to INR215m. Total R&D expenditure was down 8.7% YoY to INR240m in FY20.

Exhibit 22: Total R&D expenditure declined 8.7% YoY to INR240m in FY20

R&D expenditure (INR m)	FY19	FY20	YoY (%)
Capital	38	24	-35.3
Recurring	225	215	-4.2
Total	**263**	**240**	**-8.7**
Total R&D expenditure as % of sales	0.13	0.11	

Source: Company, MOFSL

- Forex: In FY20, TTAN earned INR1.6b in forex and spent INR7.5b.

Sustainability

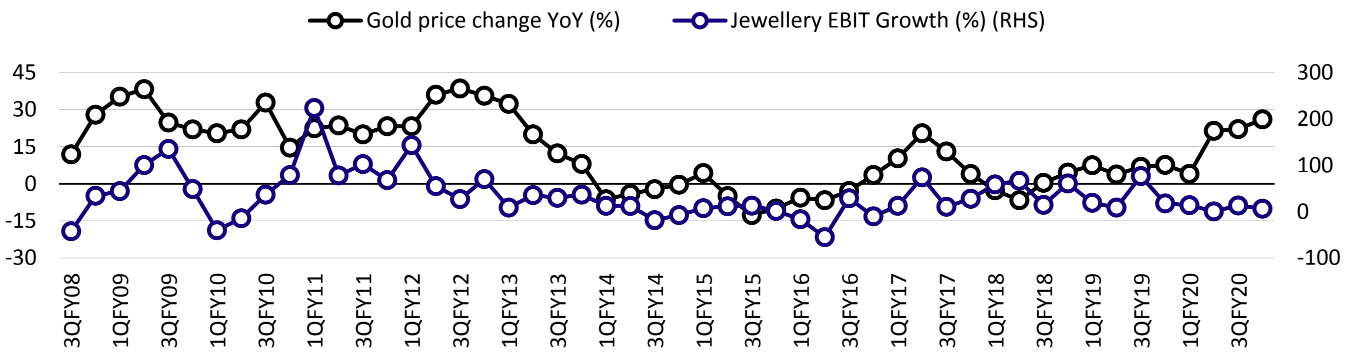
- 67% of electricity at manufacturing plants is from renewable sources.
- 47% of water used across the company is recycled, and lake rejuvenation initiative was undertaken.
- 44% of gold and 47% of brass used in production is from recycled sources.
- TTAN has reached out to over 350k beneficiaries through various CSR initiatives.

Valuation and view

- Post our downgrade to Neutral in Nov'19, the stock (down ~20%; ~25% off its erstwhile peak) has significantly underperformed our coverage universe as well as discretionary peers such as APNT, PIDI, JUBI, and UNSP.
- While 1HFY21 is expected to remain weak, we expect recovery in 3QFY21, faster than the company's guidance of 4QFY21. This is attributed to: (a) the bunching up of postponed wedding demand, in addition to traditionally strong demand for wedding jewellery, in 3Q and (b) festive demand.
- We don't expect discretionary demand to show a V-shaped recovery in the near term but the price correction (25% from peak) offers a great opportunity for long term investors to accumulate TTAN. This is because it offers a very high quality franchise to play the evolving long term discretionary consumption theme in India. Also, the structural reforms like GST and heightened regulatory crackdown (PAN Card, Hallmarking, GST etc,) have created structural headwinds for unorganized players. At the same time, even regional branded players like TBZ, Kalyan, PCJ and Joy Allukkas have failed to make a dent. Thus, TTAN remains the sole pan-national branded player in India's large jewellery market (INR2t). TTAN is poised to become bigger as it continues to be a beneficiary of structural underlying trend of unorganized to organized shift.
- Store expansions continue unabated, indicating the company and franchisees' confidence on medium- and long-term growth prospects. This would further increase the opportunity to gain from unorganized and other organized players who are expected to struggle even more going forward (barring in 1QFY21, wherein they may gain ephemerally due to windfall gains on unhedged gold).
- TTAN's medium-to-long term earnings growth opportunity is best-of-breed, reflected in the ~24% EPS CAGR over the past three years. There is a strong runway for growth going forward given TTAN's market share of less than 10% and the continuing struggles of unorganized and other organized peers.

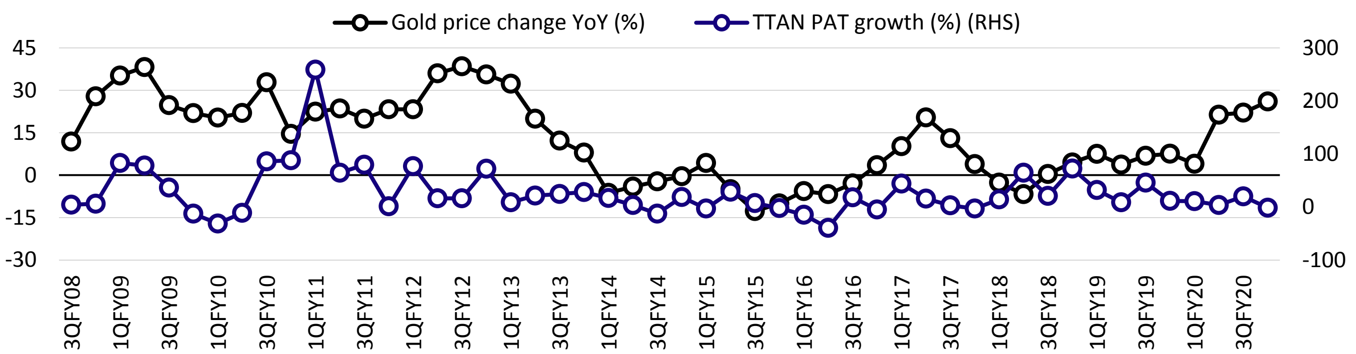
- While recent spurt in gold prices leads to some near term postponement of demand, TTAN has historically done well in the past when gold prices surged. During 2008-13, when gold prices went up by 24.8% CAGR, TTAN's jewellery EBIT and overall PAT grew at a CAGR of 49.7% and 35.6%, respectively. During the same period, its share price grew by 32% CAGR. Also since TTAN's making charges are also based percentage of value of gold, margins will improve after a lag.
- As FY22 multiples at 50x may appear to provide a challenging entry point for investment, our upgrade to **Buy** may consequently appear to be an early one. However, this is primarily due to the temporary impact of the pandemic in FY21, from which the rebound would be sharp.
- Upgrade to **Buy**, with TP of INR1,215 (55x Jun'22 EPS).

Exhibit 23: Gold price inflation has historically boosted Jewellery segment's profit growth…



Source: MOFSL, Company, Bloomberg

Exhibit 24: …and thereby, boosted TTAN's PAT growth



Source: MOFSL, Company, Bloomberg

Exhibit 25: TTAN has delivered strong returns on 3, 5 and 10 year basis but has underperformed in the last 1 year

		CAGR			
	CMP	**1yr**	**3yr**	**5yr**	**10yr**
Page Industries	19,808	9.0	6.5	7.6	33.3
Pidilite	1,357	9.4	19.5	19.5	25.8
Jubilant FoodWorks	1,720	43.1	37.7	13.4	25.7
Titan	**1,043**	**-1.2**	**24.3**	**26.4**	**22.2**
Asian Paints	1,717	12.8	14.0	14.3	20.7
United Breweries	952	-32.5	5.1	-2.0	11.5
United Spirits	581	-2.1	4.6	-4.7	7.7

Source: MOFSL, Company

Exhibit 26: Valuation matrix

Company	Reco	CMP	EPS (INR)			EPS Growth YoY (%)			P/E (x)			EV/EBITDA (x)			RoE (%)		
		(INR)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Asian Paints	Neutral	1,717	29.0	25.5	31.2	25.5	-12.1	22.4	59.2	67.4	55.1	39.9	41.2	34.9	28.3	22.3	24.0
Page Industries	Neutral	19,808	307.7	240.5	378.9	-12.9	-21.8	57.5	64.4	82.4	52.3	41.1	48.3	33.7	41.9	29.9	42.3
Pidilite Inds.	Neutral	1,357	23.1	13.5	24.5	24.5	-41.5	81.0	58.7	100.4	55.5	42.9	68.0	38.7	27.3	15.0	24.5
United Breweries	Sell	952	16.2	4.9	13.3	-24.0	-70.0	173.1	58.9	196.2	71.8	29.2	52.2	32.8	12.8	3.6	9.4
United Spirits	Neutral	581	10.9	5.8	12.4	16.9	-46.7	114.3	53.4	100.1	46.7	28.5	43.4	27.0	20.8	10.1	17.9
Jubilant Food.	Neutral	1,720	22.5	16.3	26.1	-6.5	-27.5	59.7	76.3	105.2	65.9	27.6	35.6	25.0	26.5	18.9	27.9
Titan Company	Buy	1,043	17.1	11.3	20.8	8.9	-33.8	83.9	61.1	92.3	50.2	37.2	53.6	31.6	23.8	14.7	25.0

Source: MOFSL, Company

Financials and valuations

Income Statement (INR m)

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
Net Sales	**112,759**	**132,608**	**161,198**	**197,785**	**210,515**	**170,818**	**236,607**
Change (%)	-5.3	17.6	21.6	22.7	6.4	-18.9	38.5
Gross Profit	**30,949**	**37,534**	**44,336**	**53,843**	**58,965**	**48,668**	**65,743**
Margin (%)	27.4	28.3	27.5	27.2	28.0	28.5	27.8
Other expenditure	21,601	25,979	27,889	33,928	34,046	31,504	36,918
EBITDA	**9,347**	**11,555**	**16,447**	**19,915**	**24,919**	**17,164**	**28,825**
Change (%)	-19.4	23.6	42.3	21.1	25.1	-31.1	67.9
Margin (%)	8.3	8.7	10.2	10.1	11.8	10.0	12.2
Depreciation	982	1,105	1,314	1,628	3,480	3,013	3,799
Int. and Fin. Charges	424	377	529	525	1,662	1,747	1,770
Other Income - Recurring	739	705	889	1,829	1,532	1,006	1,410
Profit before Taxes	**8,681**	**10,777**	**15,492**	**19,591**	**21,310**	**13,410**	**24,666**
Change (%)	-17.8	24.1	43.7	26.5	8.8	-37.1	83.9
Tax	1,710	3,021	4,500	6,150	5,770	3,379	6,216
Deferred Tax	-206	261	221	467	-388	0	0
Tax Rate (%)	22.1	25.6	27.6	29.0	28.9	25.2	25.2
Profit after Taxes	**6,765**	**8,018**	**11,213**	**13,908**	**15,152**	**10,030**	**18,450**
Change (%)	-17.8	18.5	39.9	24.0	8.9	-33.8	83.9
Margin (%)	6.0	6.0	7.0	7.0	7.2	5.9	7.8
Reported PAT	**6,765**	**6,991**	**11,019**	**13,887**	**14,927**	**10,030**	**18,450**

Balance Sheet (INR m)

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
Share Capital	888	888	888	888	888	888	888
Reserves	34,178	41,700	49,993	59,955	65,844	68,394	77,619
Net Worth	**35,066**	**42,587**	**50,881**	**60,842**	**66,731**	**69,282**	**78,507**
Loans	1,131	0	790	318	7,229	5,000	1,000
Lease liabilities	0	0	0	0	12,430	12,430	12,430
Deferred Tax	131	-33	-329	-688	-1,528	-1,528	-1,528
Capital Employed	**36,327**	**42,555**	**51,342**	**60,472**	**84,862**	**85,183**	**90,408**
Gross Block	13,559	9,858	13,384	15,398	17,692	19,967	22,242
Less: Accum. Depn.	6,054	1,220	2,137	3,335	4,600	7,612	11,411
Net Fixed Assets	**7,506**	**8,638**	**11,247**	**12,063**	**13,093**	**12,355**	**10,831**
Intangibles	200	3,337	3,495	3,631	3,960	3,960	3,960
Capital WIP	1,067	1,432	430	290	115	115	115
Right of use asset	0	0	0	0	9,349	9,349	9,349
Investments	279	370	344	392	444	444	444
Curr. Assets, L&A	**54,371**	**70,265**	**79,366**	**100,035**	**106,948**	**88,609**	**110,434**
Inventory	44,472	49,257	59,248	70,388	81,030	56,740	72,407
Account Receivables	1,925	2,076	2,957	4,205	3,116	3,510	4,862
Cash and Bank Balance	1,189	11,727	6,195	11,357	4,947	11,396	14,506
Others	6,785	7,205	10,965	14,085	17,855	16,963	18,659
Curr. Liab. and Prov.	**27,095**	**41,488**	**43,540**	**55,939**	**49,046**	**29,648**	**44,724**
Current Liabilities	25,794	40,056	41,909	53,881	46,103	26,564	40,825
Provisions	1,302	1,433	1,631	2,057	2,943	3,084	3,898
Net Current Assets	**27,276**	**28,777**	**35,826**	**44,096**	**57,902**	**58,961**	**65,710**
Application of Funds	**36,327**	**42,555**	**51,342**	**60,472**	**84,862**	**85,183**	**90,409**

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
Basic (INR)							
EPS	**7.6**	**9.0**	**12.6**	**15.7**	**17.1**	**11.3**	**20.8**
Cash EPS	8.7	10.2	14.0	17.3	18.9	14.7	25.1
BV/Share	39.5	48.0	57.3	68.5	75.2	78.0	88.4
DPS	5.4	3.6	4.6	6.0	4.1	5.1	10.4
Payout %	70.3	39.7	36.4	38.5	23.8	45.0	50.0
Valuation (x)							
P/E	136.9	115.5	82.6	66.6	61.1	92.3	50.2
Cash P/E	120.0	102.0	74.4	60.2	55.3	71.0	41.6
EV/Sales	8.2	6.9	5.7	4.6	4.4	5.4	3.9
EV/EBITDA	99.0	79.1	56.0	45.9	37.2	53.6	31.6
P/BV	26.4	21.7	18.2	15.2	13.9	13.4	11.8
Dividend Yield (%)	0.5	0.3	0.4	0.6	0.4	0.5	1.0
Return Ratios (%)							
RoE	19.7	20.6	24.0	24.9	23.8	14.7	25.0
RoCE	20.0	21.0	24.7	25.5	22.5	13.3	22.5
RoIC	19.9	24.8	29.8	28.0	23.9	13.9	25.2
Working Capital Ratios							
Debtor (Days)	6	6	7	8	5	8	8
Asset Turnover (x)	3.1	3.1	3.1	3.3	2.5	2.0	2.6
Leverage Ratio							
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.1	0.1	0.0

Cash Flow Statement

(INR m)

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
OP/(loss) before Tax	8,681	9,733	15,298	19,569	21,017	13,410	24,666
Int./Div. Received	-95	31	-81	1,140	-171	-1,006	-1,410
Depreciation & Amort.	982	1,105	1,314	1,628	3,480	3,013	3,799
Interest Paid	-152	-136	-113	-512	677	1,747	1,770
Direct Taxes Paid	2,025	2,768	4,561	6,360	5,577	3,379	6,216
Incr in WC	1,631	-9,158	12,365	3,036	22,715	-5,390	3,639
CF from Operations	**5,761**	**17,123**	**-507**	**12,429**	**-3,289**	**19,175**	**18,970**
Incr in FA	2,522	2,511	2,993	2,634	3,456	2,275	2,275
Free Cash Flow	**3,239**	**14,613**	**-3,500**	**9,796**	**-6,930**	**16,900**	**16,695**
Investments	-55	3,254	-4,115	177	-3,183	0	0
Others	-1,058	2,986	-273	197	638	3,138	2,787
CF from Invest.	**-1,409**	**-8,750**	**1,395**	**-3,007**	**-1,096**	**-5,413**	**-5,062**
Incr in Debt	0	0	0	0	6,934	-2,229	-4,000
Dividend Paid	3,944	36	2,774	3,974	5,356	3,551	4,924
Others	1,104	1,621	-249	915	3,995	1,747	1,770
CF from Fin. Activity	**-5,048**	**-1,656**	**-2,524**	**-4,888**	**-2,417**	**-7,527**	**-10,694**
Incr/Decr of Cash	**-696**	**6,717**	**-1,637**	**4,534**	**-6,802**	**6,234**	**3,214**
Add: Opening Balance	2,138	1,442	8,159	6,523	11,057	4,440	10,674
Closing Balance	**1,442**	**8,159**	**6,523**	**11,057**	**4,255**	**10,674**	**13,888**

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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