

View: Strong recovery in July; Maintain Buy.

- Titan's Q1FY21 revenue was in line, but operational performance was lower than our estimates.
- In July, retail jewellery segment posted 1% increase with advancement of activations. However, Watches and Eyewear segments yet to witness significant improvement.
- Other expenses remained high due to increase in ineffective hedges. Going ahead, ineffective hedges are likely to reduce substantially with normalization of demand scenario.
- We have revised our FY21E EPS at Rs 12.3 (-37.6%) and maintained our FY22E EPS estimates Rs 27.1. We maintain Buy, with TP of Rs 1,301 (48x FY22E).

Jewellery segment expected to recover in H2FY21E

Jewellery business reported a 56% YoY revenue de-growth in Q1FY21. Though April was complete washout, Jewellery segment was able to recover 20/77% in May/June. Further, the segment was able to report 1% revenue growth in July owing to advancement of activations. Going ahead, we believe that the postponement of marriage season to H2FY21E would result in pent up demand. However, we believe that the studded jewellery share would remain under pressure for some time.

Operating performance was weaker than estimate

Net revenues de-grew by 62.3% YoY to Rs 18.6bn – came in line with our estimate. Titan reported loss of Rs 2.5bn at the EBITDA level. Though the company was able to reduce A&P spends, employee spends and other expenses remained very high, resulted in EBITDA loss during the quarter. Titan reported Rs 2.7bn net loss during the quarter compared to Rs 3.7bn profit in Q1FY20.

Lockdown had impact across segments

- Jewellery reported 55.9% YoY revenue de-growth to Rs 17.8bn and EBIT loss of Rs 540 mn vs Rs 4.4bn profit.
- Revenue from Watches business declined 89.5% to Rs 750mn. EBIT loss in the segment was at Rs 1.6bn vs profit of Rs 1.3bn in Q1FY20.
- Eyewear reported 79.8% YoY decline in revenues to Rs 300mn and registered EBIT loss of Rs 310mn compared to a loss of Rs 114mn in Q1FY20.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	18,620	49,397	(62.3)	44,288	(58.0)
Total Expense	21,080	43,744	(51.8)	38,251	(44.9)
EBITDA	(2,460)	5,653	(143.5)	6,037	(140.8)
Depreciation	820	681	20.4	902	(9.1)
EBIT	(3,280)	4,972	(166.0)	5,135	(163.9)
Other Income	390	560	(30.3)	401	(2.7)
Interest	460	303	51.8	379	21.2
EBT	(3,350)	5,229	(164.1)	5,156	(165.0)
Tax	(650)	1,521	(142.7)	1,588	(140.9)
RPAT	(2,699)	3,708	(172.8)	3,569	(175.6)
APAT	(2,699)	3,708	(172.8)	3,569	(175.6)
			(bps)		(bps)
Gross Margin (%)	20.6	26.8	(622)	30.1	(943)
EBITDA Margin (%)	(13.2)	11.4	(2466)	13.6	(2684)
NPM (%)	(14.5)	7.5	(2200)	8.1	(2255)
Tax Rate (%)	19.4	29.1	(969)	30.8	(1140)
EBIT Margin (%)	(17.6)	10.1	(2768)	11.6	(2921)

CMP	Rs 1,108
Target / Upside	Rs 1,301 / 17%
BSE Sensex	38,206
NSE Nifty	11,270

Scrip Details

Equity / FV	Rs 888mn / Rs 1
Market Cap	Rs 983bn
	US\$ 13bn
52-week High/Low	Rs1,390/ Rs 721
Avg. Volume (no)	4,026,420
NSE Symbol	TITAN
Bloomberg Code	TTAN IN

Shareholding Pattern Jun'20(%)

Promoters	52.9
MF/Banks/FIs	9.1
FIIIs	19.4
Public / Others	18.6

Valuation (x)

	FY20A	FY21E	FY22E
P/E	64.8	89.7	40.9
EV/EBITDA	41.9	54.3	27.5
ROE (%)	23.3	14.8	27.0
RoACE (%)	18.2	12.4	22.0

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	200,096	189,034	281,169
EBITDA	24,177	18,564	36,643
PAT	15,176	10,962	24,067
EPS (Rs.)	17.1	12.3	27.1

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Exhibit 1: Segmental Performance

Revenue (Rs mn)	Q1FY21	Q1FY20	YoY %	De-growth in May/June'20	Q4FY20	QoQ %
Jewellery	17,830	40,474	(55.9)	-80%/-28%	37,544	(52.5)
Watches	750	7,146	(89.5)	-95%/-77%	5,568	(86.5)
Eyewear	300	1,488	(79.8)	-85%/-65%	1,077	(72.1)
Others	40	363	(89.0)		415	(90.4)
EBIT (Rs mn)						
Jewellery	(540)	4,420	NM		5,339	NM
Watches	(1,640)	1,277	NM		722	NM
Eyewear	(310)	(114)	NM		18	NM
Others	(180)	(185)	NM		(209)	NM
EBIT Margin (%)						
Jewellery	(3.0)	10.9	NM		14.2	NM
Watches	(218.7)	17.9	NM		13.0	NM
Eyewear	(103.3)	(7.7)	NM		1.7	NM
Others	(450.0)	(51.1)	NM		(50.3)	NM

Source: DART, Company

Exhibit 2: Actual V/s DART estimates

Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	18,620	19,466	(4.3)	
EBITDA	(2,460)	1,429	NM	Variation due to higher other expenses on account of ineffective hedges
EBITDA margin %	(13.2)	7.3		
APAT	(2,700)	400		

Source: Company, DART

Exhibit 3: Change in estimates

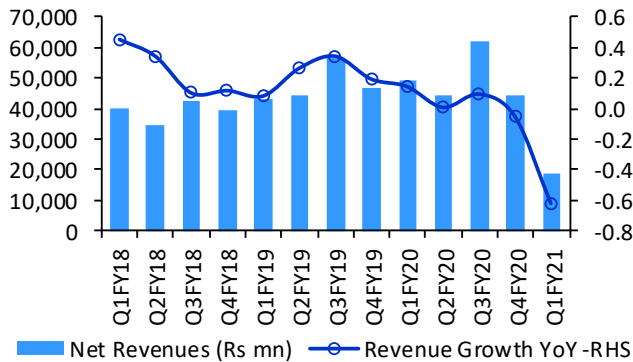
Rs Mn	FY21E			FY22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Net Revenue	189,034	223,076	(15.3)	281,169	281,771	(0.2)
EBITDA	18,564	27,475	(32.4)	36,643	36,449	0.5
EBITDA Margin (%)	9.8	12.3	-250 bps	13.0	12.9	10 bps
APAT	10,962	17,556	(37.6)	24,067	23,923	0.6
EPS (Rs)	12.3	19.8	(37.6)	27.1	26.9	0.6

Source: DART, Company

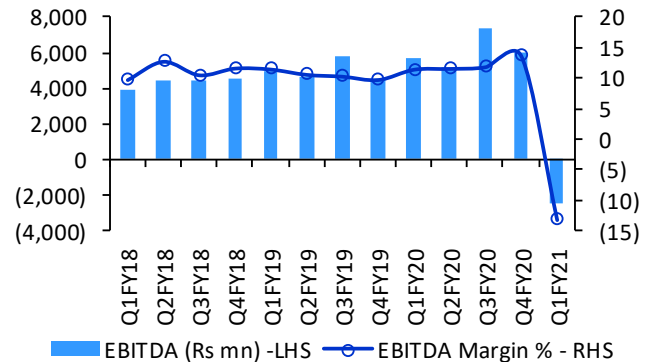
We have downward revised our FY21E revenues to factor in extended lockdown in few states Q1FY21E. In line with the revision in sales, we have revised EBITDA and APAT estimates. We have lowered margins in FY21E to factor in negative operating leverage and lower contribution of studded jewellery. Nevertheless, we have maintained FY22E estimates in anticipation of improvement in growth, going ahead.

Conference call highlights

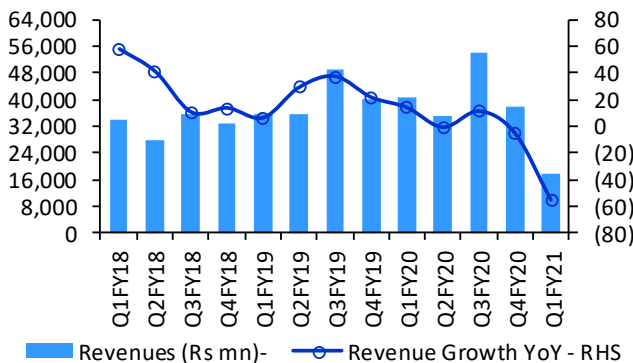
- Management is confident of normalcy in businesses by Q4FY21E.
- Gold Harvest Scheme contribution is generally ~21% which has increased to 35% in Q1FY21. In July'20, contribution was 32%. Very few people sought refunds. Company witnessed 56-60% recovery in GHS enrolments in July, higher than that in June.
- Competitive pressure was witnessed in June/July mainly in South. Unorganised players are not able to replenish inventory due to liquidity pressure. This, coupled with better product mix, Titan gained share in Jewellery in June and July'20 from regional and national players.
- Other expenses increased due to ineffective hedges (Gold bought in Q3 and Q4FY20 was designated to be sold in Q1FY21, however it was not sold as much as estimated due to Covid).
- Loss in ineffective hedge would be regained in future, however stock gains in Q1FY21 (due to spike in gold prices) may also reverse going ahead, so the impact of ineffective hedge would be nullified.
- Digital initiatives (online+omni) received good response in Q1 accounting for 6% of total turnover and is growing at a faster pace.
- Gross margins in Jewellery business have suffered as studded ratio was lower at 18% compared to 25% in Q1FY20. This is attributed to better recovery of plain gold jewellery and key markets for studded (metros) being more impacted by Covid-19. Gross margin will continue to remain under pressure as studded ratio would be lower than last year.
- Under the 'Gold rate protection scheme', company took a hit on making charges on coins and kept it low to attract customer. However, no material impact of this move on margin. Rather it gives an opportunity for Titan to exchange customer's cold coin for higher grammage jewellery.
- Wedding jewellery contributed 23% sales in June due to pent up demand. In July'20, it was 21%, up from 20% in July'19. Gold exchange contribution was 22% in Q1FY21, from 30% last year.
- Jewellery - In July, operational days were slightly lower than that of June. 90% stores were operational. In June, recovery (plain + studded) in Retail was 77% YoY in value terms, however it was better in July at 101% as company preponed activation by couple of weeks. Recovery in studded jewellery alone was lower i.e. 59% in June and 67% in July'20.
- Eyewear- exhibited 12% recovery in May, 23% in June and 39% in July at primary sales level. 367 stores of Titan Eye + were open in July vs 412 in June'20. Recovery was 85% compared to last year.
- Watches- LTL stores that were opened in July was 57%. Stores opened in July were less than June'20. Overall 40% sales recovery YoY in July, retail recovery was 50% LTL. Gifting proposition is the main trigger for watches during lockdown. Fashion collection for youngsters launched in June'20 received positive response.

Exhibit 4: Revenue Performance


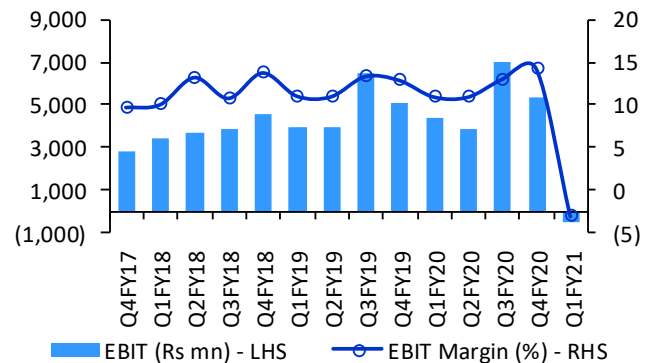
Source: DART, Company

Exhibit 5: EBITDA & EBITDA Margin


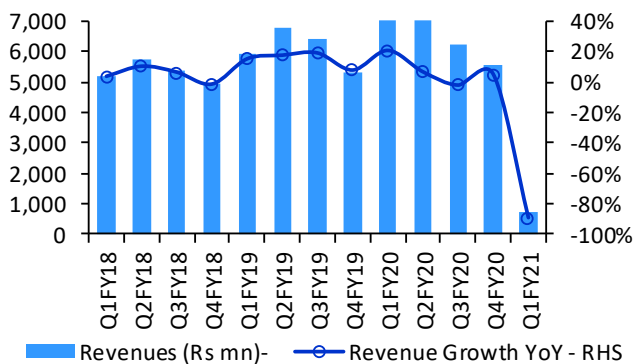
Source: DART, Company

Exhibit 6: Jewellery Revenue Performance


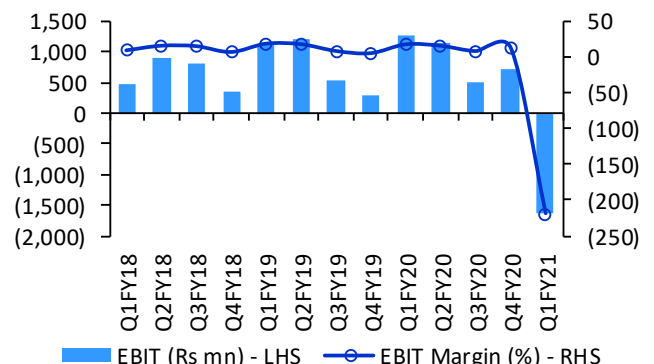
Source: DART, Company

Exhibit 7: Jewellery EBIT Performance


Source: DART, Company

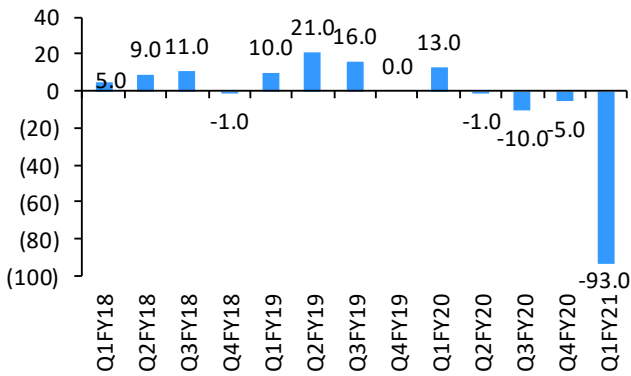
Exhibit 8: Watch Revenue Performance


Source: DART, Company

Exhibit 9: Watch EBIT Performance


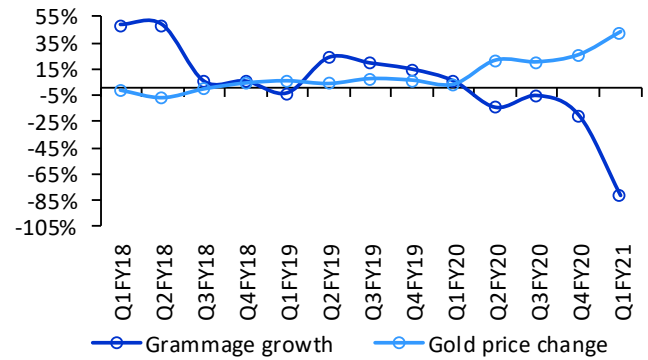
Source: DART, Company

Exhibit 10: Watch Volumes



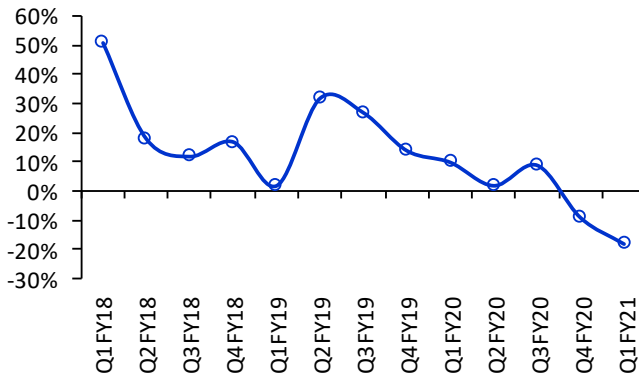
Source: DART, Company

Exhibit 11: Gold Grammage



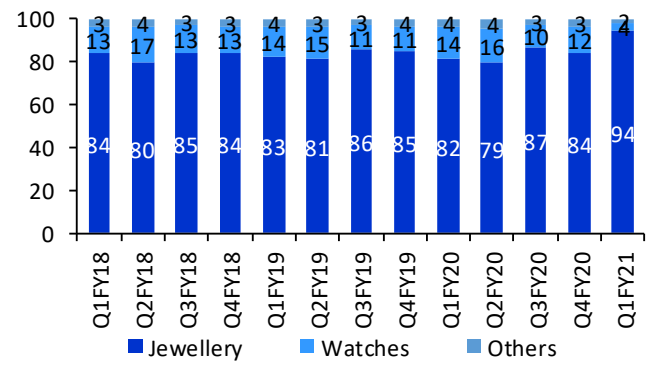
Source: DART, Company

Exhibit 12: Tanishq Like to Like Growth



Source: DART, Company (Q1FY21 exhibit June'20 figures)

Exhibit 13: Segmental Revenue Contribution



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	190,700	200,096	189,034	281,169
Total Expense	170,678	175,919	170,470	244,526
COGS	139,872	145,118	139,941	207,729
Employees Cost	8,788	10,401	11,193	11,969
Other expenses	22,018	20,400	19,336	24,827
EBIDTA	20,022	24,177	18,564	36,643
Depreciation	1,389	3,097	3,165	3,245
EBIT	18,633	21,080	15,399	33,398
Interest	445	1,495	2,123	2,489
Other Income	1,785	1,464	1,537	1,614
Exc. / E.O. items	(700)	0	0	0
EBT	19,274	21,050	14,814	32,523
Tax	5,530	5,873	3,852	8,456
RPAT	13,744	15,176	10,962	24,067
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	14,444	15,176	10,962	24,067

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	888	888	888	888
Minority Interest	0	0	0	0
Reserves & Surplus	60,929	67,361	78,786	97,497
Net Worth	61,817	68,249	79,673	98,385
Total Debt	22,876	32,694	33,194	33,694
Net Deferred Tax Liability	(848)	(1,720)	(1,720)	(1,720)
Total Capital Employed	83,846	99,222	111,147	130,358

Applications of Funds

Net Block	10,694	20,564	21,023	22,002
CWIP	256	107	107	107
Investments	8,759	9,831	9,831	9,831
Current Assets, Loans & Advances	94,142	94,893	106,530	134,392
Inventories	67,192	77,406	84,303	105,017
Receivables	3,582	2,144	2,867	4,521
Cash and Bank Balances	10,010	3,560	8,060	9,543
Loans and Advances	9,376	8,711	8,230	12,241
Other Current Assets	3,981	3,071	3,071	3,071
Less: Current Liabilities & Provisions	30,005	26,173	26,344	35,974
Payables	7,959	5,099	6,200	8,716
Other Current Liabilities	22,046	21,074	20,144	27,258
sub total				
Net Current Assets	64,137	68,720	80,186	98,418
Total Assets	83,846	99,222	111,147	130,358

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	26.7	27.5	26.0	26.1
EBIDTA Margin	10.5	12.1	9.8	13.0
EBIT Margin	9.8	10.5	8.1	11.9
Tax rate	28.7	27.9	26.0	26.0
Net Profit Margin	7.2	7.6	5.8	8.6
(B) As Percentage of Net Sales (%)				
COGS	73.3	72.5	74.0	73.9
Employee	4.6	5.2	5.9	4.3
Other	11.5	10.2	10.2	8.8
(C) Measure of Financial Status				
Gross Debt / Equity	0.4	0.5	0.4	0.3
Interest Coverage	41.9	14.1	7.3	13.4
Inventory days	129	141	163	136
Debtors days	7	4	6	6
Average Cost of Debt	2.3	5.4	6.4	7.4
Payable days	15	9	12	11
Working Capital days	123	125	155	128
FA T/O	17.8	9.7	9.0	12.8
(D) Measures of Investment				
AEPS (Rs)	16.3	17.1	12.3	27.1
CEPS (Rs)	17.8	20.6	15.9	30.8
DPS (Rs)	4.5	6.0	6.0	6.0
Dividend Payout (%)	27.5	35.3	48.9	22.3
BVPS (Rs)	69.6	76.9	89.7	110.8
RoANW (%)	24.2	23.3	14.8	27.0
RoACE (%)	19.7	18.2	12.4	22.0
RoAIC (%)	27.6	24.9	15.5	29.8
(E) Valuation Ratios				
CMP (Rs)	1108	1108	1108	1108
P/E	68.1	64.8	89.7	40.9
Mcap (Rs Mn)	983,283	983,283	983,283	983,283
MCap/ Sales	5.2	4.9	5.2	3.5
EV	996,149	1,012,417	1,008,417	1,007,434
EV/Sales	5.2	5.1	5.3	3.6
EV/EBITDA	49.8	41.9	54.3	27.5
P/BV	15.9	14.4	12.3	10.0
Dividend Yield (%)	0.4	0.5	0.5	0.5
(F) Growth Rate (%)				
Revenue	22.1	4.9	(5.5)	48.7
EBITDA	15.5	20.8	(23.2)	97.4
EBIT	14.8	13.1	(26.9)	116.9
PBT	22.7	9.2	(29.6)	119.5
APAT	15.1	5.1	(27.8)	119.5
EPS	15.1	5.1	(27.8)	119.5
Cash Flow				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	12,490	(2,881)	15,102	13,052
CFI	(3,930)	(617)	(3,624)	(4,224)
CFF	(4,673)	(2,952)	(6,978)	(7,345)
FCFF	10,236	(5,905)	11,478	8,828
Opening Cash	6,123	10,010	3,560	8,060
Closing Cash	10,010	3,560	8,060	9,543

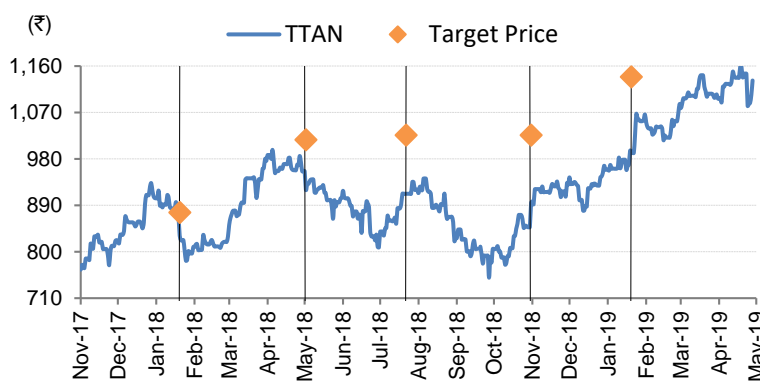
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-19	Sell	1,160	1,284
Feb-20	Accumulate	1,371	1,276
Mar-20	Reduce	988	905
Mar-20	Reduce	988	928
Jun-20	Buy	1,293	997

*Price as on recommendation date

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