

Strong business model to aid pace of recovery

As guided by the management in its pre-quarterly update, jewellery division reported revenue de-growth of 57% YoY to ₹ 1783 crore (including bullion sale of ₹ 601 crore). Excluding bullion sale, revenue for the division fell 71% YoY (grammage de-growth: 81%) with sales in May, June around 20%, 72%, respectively. The company is expecting recovery rate to improve at 80% of pre-Covid levels by end of Q2FY21. The impact of pandemic was much more severe on the watches division as the segment reported revenue de-growth of 90% YoY to ₹ 75.0 crore. Sales continued to remain under stress, with a recovery rate of 40% in July. Revenue from eyewear division de-grew 80% YoY to ₹ 30.0 crore. Overall consolidated revenue de-grew 62% YoY to ₹ 1979.0 crore. Gross margins deteriorated 550 bps YoY to 22.0% owing to lower share of studded ratio (18% vs. 25% YoY) and higher demand for plain gold jewellery. Despite sharp reduction in advertising spend (down 86% YoY), profitability in the quarter was materially impacted due to other expenses staying elevated (certain expenses pertaining to ineffective hedge that Titan did not quantify). Hence, EBITDA losses were at ₹ 253.0 crore. Currently, ~97% of stores are operational and management has reiterated its stance of achieving normalcy levels by Q4FY21E.

Expectation of higher gold price driving gold jewellery demand

Since the outbreak of the pandemic, the perception of gold as an asset class has seen healthy traction. The management indicated that sentiments for plain gold jewellery and gold coins have improved on the back of significant surge in gold prices and expectations of further spike. Overall recovery rate for jewellery division rose to 77% in June and 101% in July (due to preponing of studded activation, low base effect). The management expects to exit Q2FY21E with recovery rate of 80% and gradual improvement in ensuing quarters. Owing to sluggish demand for studded jewellery, we expect gross margins to stay under pressure for FY21E. The company saw dilution in making charges (not substantial) due to high competitive pressure (especially in south markets) and to attract more footfalls. Store addition stayed subdued with Titan adding six Tanishq stores in Q1FY21. It has rapidly scaled up its digital presence, which contributed 6% to revenues.

Valuation & Outlook

Titan continues have a comfortable liquidity position due to adequate banking limits and ability to issue commercial paper at attractive rates. As on June 30, the company is net cash surplus largely owing to sale of excess inventory in the form of gold. Titan remains a quality franchise with strong brand patronage. Over the years, the company has consistently exhibited its ability to gain market share amid a tough industry scenario (gained market share in June & July). Robust balance sheet and asset light distribution model have enabled Titan to outperform peers. While near term headwinds may hamper the performance of the company, we continue to remain structurally positive on the company and its long term growth prospects. We maintain **HOLD** with a revised target price of ₹ 1170 (52.0x FY22E EPS, previous target price: ₹ 1095).



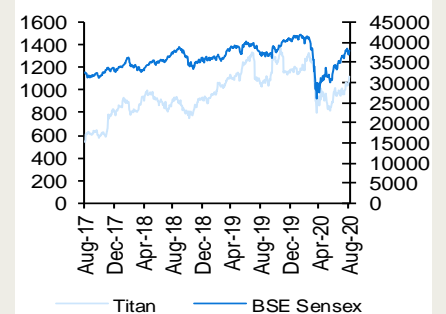
Particulars

Particular	Amount
Market Capitalisation (₹Crore)	94,549.2
Debt (FY 20) (₹Crore)	722.9
Cash (FY 20) (₹Crore)	381.2
EV (₹Crore)	94,890.9
52 week H/L	1389 / 720
Equity Capital (₹Crore)	88.8
Face Value (₹)	1

Key Highlights

- Revenue recovery rate for jewellery division at 77% in June & 101% in July (due to preponing of studded activation and low base effect)
- Maintain HOLD

Price Chart



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Key Financial Summary

(₹Crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	16,119.8	19,778.5	21,051.5	17,047.5	24,271.7	7.4
EBITDA	1,644.7	2,136.5	2,466.6	1,390.8	3,037.8	11.0
PAT	1,130.1	1,404.2	1,501.4	723.3	2,002.8	15.5
EPS (₹)	12.7	15.8	16.9	8.1	22.6	
P/E (x)	83.7	67.3	63.0	130.7	47.2	
EV/Sales (x)	5.8	4.7	4.5	5.6	3.9	
EV/EBITDA (x)	57.2	43.8	38.5	68.2	31.0	
RoCE (%)	29.3	32.3	28.7	13.7	30.3	
RoE (%)	22.2	23.1	22.5	10.3	23.1	

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Revenue	1979.0	1980.9	5151.1	-61.6	4711.5	-58.0	As guided by the management in its pre-quarterly update, revenue declined by 62% YoY mainly owing to store closures and weak demand
Raw Material Expense	1,545.0	1,525.1	3,740.4	-58.7	3,277.9	-52.9	Gross margins contracted 550 bps YoY owing to decline in share of studded jewellery
Employee Expenses	260.0	202.7	282.8	-8.1	284.7	-8.7	
Advertising Expenses	21.0	42.5	151.8	-86.2	97.1	-78.4	Significant reduction in marketing spends in the quarter
Other Expenses	406.0	218.1	402.6	0.8	439.3	-7.6	Other expenses remained elevated with certain cost pertaining to ineffective hedges
EBITDA	-253.0	-7.5	573.4	PL	612.5	PL	Higher other expenses, significantly impacted the EBITDA
EBITDA Margin (%)	-12.8	-0.4	11.1	NA	13.0	NA	
Depreciation	93.0	81.7	76.0	22.4	102.1	-8.9	
Interest	52.0	38.8	33.9	53.6	42.7	21.7	
Other Income	41.0	38.4	57.1	-28.2	41.7	-1.7	
PBT before Exceptional item	-357.0	-89.6	520.7	PL	509.3	PL	
Exceptional Item	0.0	0.0	0.0		0.0		
PBT	-357.0	-89.6	520.7	PL	509.3	PL	
Tax Outgo	-63.0	0.0	156.0	-140.4	166.2	-137.9	
PAT	-298.0	-89.6	363.7	PL	343.1	PL	

Key Metrics

Jewellery

Revenues (₹ Crore)	1,783.0	1,859.2	4,164.1	-57.2	3,899.3	-54.3	Reached 77% of pre-covid sales in month of June
Segment EBIT Margin (%)	-3.0	NA	10.5		13.6		EBIT losses came in at ₹ 54.0 crore

Watches

Revenues (₹ Crore)	75.0	85.9	716.1	-89.5	558.3	-86.6	Watches segment impacted the most. Reached 23% of pre-covid levels in June
Segment EBIT Margin (%)	-218.7	NA	16.6		9.7		Owing to negative operating leverage, division reported significant EBIT loss of ₹ 164 crore

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Remarks
	Old	New	% Change	Old	New	% Change	
Revenue	17,768.5	17,047.5	-4.1	24,468.9	24,271.7	-0.8	Factoring in the performance in Q1FY 21, we sharply cut our earnings
EBITDA	1,858.6	1,390.8	-25.2	3,099.6	3,037.8	-2.0	
EBITDA Margin (%)	10.5	8.2	-230 bps	12.7	12.5	-15 bps	
PAT	1,086.2	723.3	-33.4	2,024.7	2,002.8	-1.1	
EPS (₹)	12.2	8.1	-33.2	22.8	22.6	-1.1	

Source: Company, ICICI Direct Research

Key conference call takeaways

Jewellery Segment:

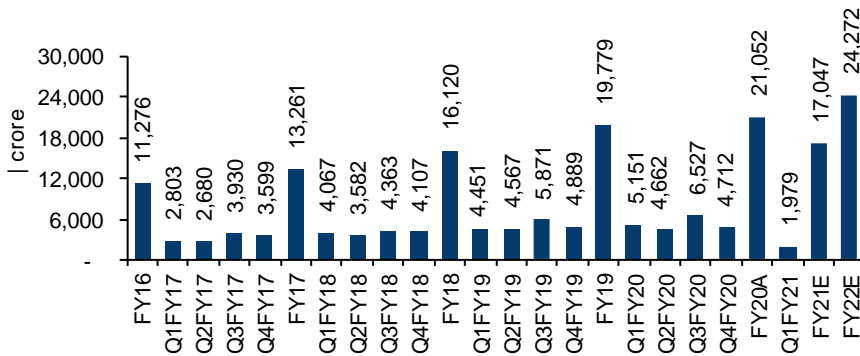
- The revenue recovery for the jewellery segment has picked up pace with June 2020 revenues at 77% of June 2019. July 2020 revenue was at 101% of July 2019. However, the management indicated that part of the visible recovery in July 2020 was owing to preponing of studded jewellery activation and a low base in July 2019. Excluding the impact of low base and studded jewellery activation, revenue recovery for July 2020 was at ~ 80% of July 2019
- Around 90% of stores were operational in July but operational days were lower at 85% compared to 90% in June
- On the jewellery market trend, the management indicated that competitive intensity in south India was higher and jewellers were offering higher discounts and promotional schemes
- Unorganised and small jewellers were seeing liquidity pressures and also the safety aspect and implementation of better social distancing norms was driving shift towards organised jewellers. The Titan management indicated that it continued to gain market share even in a tough demand scenario
- During Q1FY21, the company launched several digital initiatives, which received a good customer response. The share of revenue from digital medium stood at 6% in Q1FY21
- Overall there was a positive sentiment towards plain gold jewellery and bullion. The management indicated that it witnessed preponing of wedding jewellery purchases in June owing to customer perception that gold prices may increase further. Lower price band jewellery continued to remain sluggish but medium price jewellery (between ₹ 1 lakh and ₹ 3 lakh) witnessed better traction
- Studded jewellery witnessed recovery rate of 59% in June and 67% in July. Despite weak demand the company continues to outperform peers
- The Golden Harvest Scheme is witnessing a high redemption rate as customers are converting the same to purchase jewellery rather than seeking refund. New enrolment in GHS is at 50-60% of normal level and July had witnessed higher enrolment than June

Watches and others:

- For watches division, recovery rate in May and June was 5% and 23%, respectively. As of July 2020, 57% of Titan watch stores were open and retail recovery was close to 40% of July 2019
- Recovery rate was highest in ecommerce and retail (WOT, Fastrack and Helios) channels and lowest in Large Format Stores that are primarily located in malls
- The watches division is likely to break even at 60-70% of pre-Covid levels
- For eyewear division, recovery rate in May and June was 15% and 35%, respectively. The division closed 15 stores in the quarter on net basis
- The company is implementing 'War on waste' programme to critically evaluate every expenditure head and target to reduce the same. The company is aiming to reduce employee expenditure, optimise working capital and maintain good cash generation levels

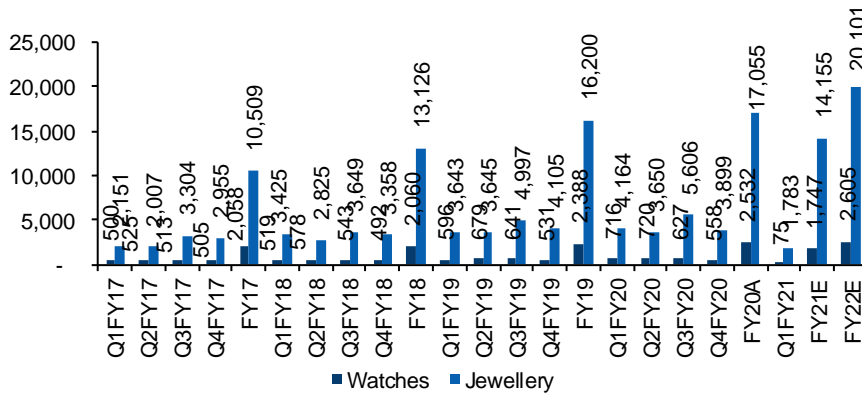
Financial story in charts

Exhibit 3: Revenue trend



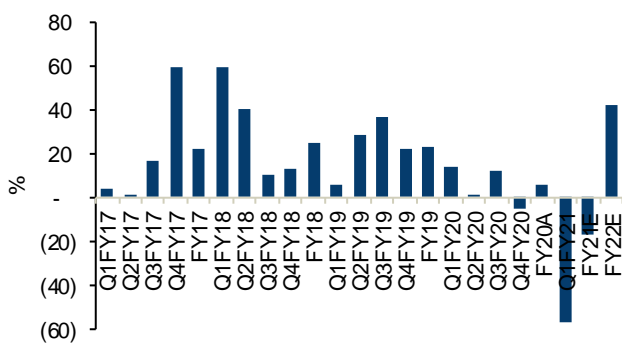
Source: Company, ICICI Direct Research

Exhibit 4: Divisional performance (revenue)



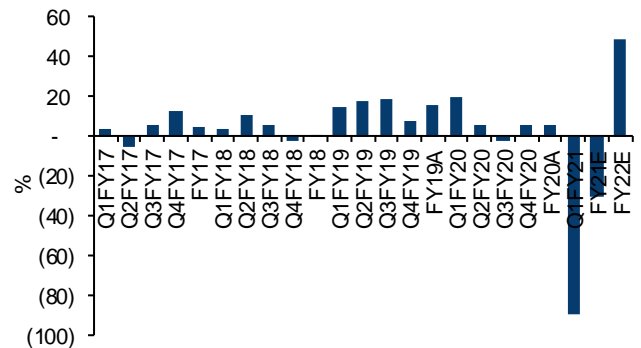
Source: Company, ICICI Direct Research

Exhibit 5: Jewellery segment growth



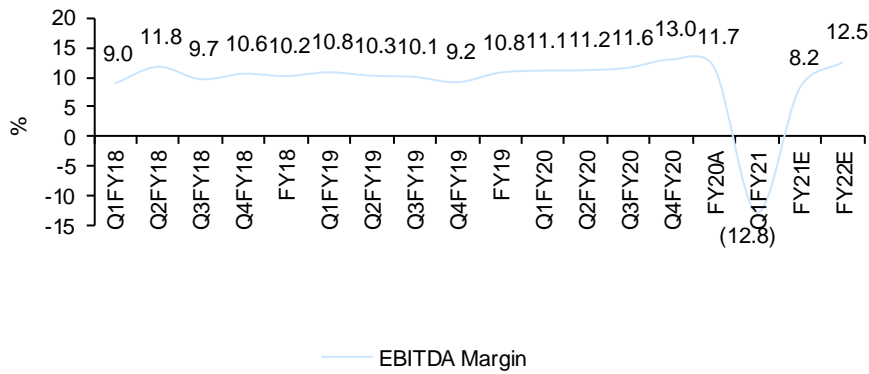
Source: Company, ICICI Direct Research

Exhibit 6: Watches segment growth



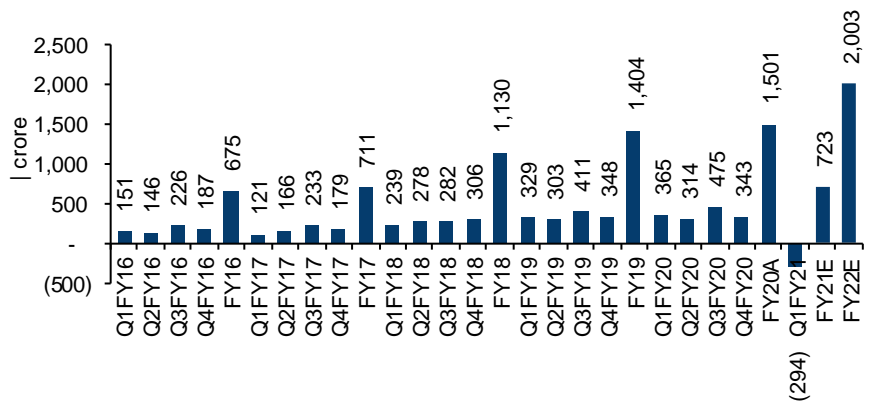
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margin trend (post Ind-AS 116)



Source: Company, ICICI Direct Research.

Exhibit 8: Net profit trend



Source: Company, ICICI Direct Research.

Exhibit 9: Valuation

	Sales (₹cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY 19	19,778.5	22.7	15.8	24.3	67.3	43.8	23.1	32.3
FY 20A	21,051.5	6.4	16.9	6.9	63.0	38.5	22.5	28.7
FY 21E	17,047.5	-19.0	8.1	-51.8	130.7	68.2	10.3	13.7
FY 22E	24,271.7	42.4	22.6	176.9	47.2	31.0	23.1	30.3

Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement		₹ crore			
(Year-end March)	FY19	FY20A	FY21E	FY22E	
Total operating Income	19,778.5	21,051.5	17,047.5	24,271.7	
Growth (%)	22.7	6.4	-19.0	42.4	
Raw Material Expenses	14,394.3	15,155.1	12,598.1	17,572.7	
Employee Expenses	1,019.3	1,199.4	1,159.2	1,262.1	
Mfg, Admin & selling Exps	2,228.5	2,230.5	1,899.4	2,399.1	
Total Operating Expenditure	17,642.0	18,585.0	15,656.7	21,233.9	
EBITDA	2,136.5	2,466.6	1,390.8	3,037.8	
Growth (%)	29.9	15.5	-43.6	118.4	
Depreciation	162.8	348.0	372.7	395.6	
Interest	52.5	166.2	189.4	140.7	
Other Income	182.9	153.2	130.2	169.3	
PBT	2,104.1	2,105.7	958.9	2,670.9	
Exceptional items*	145.0	0.0	0.0	0.0	
Total Tax	568.2	609.0	241.6	673.1	
Share of JV/Minority int	13.3	4.7	6.0	5.0	
PAT	1,404.2	1,501.4	723.3	2,002.8	
Growth (%)	24.3	6.9	-51.8	176.9	
EPS (₹)	15.8	16.9	8.1	22.6	

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement		₹ crore			
(Year-end March)	FY19	FY20A	FY21E	FY22E	
PAT	1,404.2	1,501.4	723.3	2,002.8	
Add: Depreciation	162.8	348.0	372.7	395.6	
Add: Finance Cost	52.5	166.2	189.4	140.7	
(Inc)/dec in Current Assets	-1,531.2	-1,310.3	411.7	-1,676.6	
Inc/(dec) in CL and Provisions	1,239.9	-1,000.0	-710.7	919.9	
Others	0.0	-53.0	0.0	0.0	
CF from operating activities	1,328.2	-347.8	986.4	1,782.4	
(Inc)/dec in Investments	-73.8	-49.5	-18.2	-40.0	
(Inc)/dec in Fixed Assets	-254.3	-316.0	-180.0	-315.0	
(Inc)/dec in CWIP	11.6	13.5	5.5	3.8	
Others	-19.5	256.1	-90.0	-120.0	
CF from investing activities	-336.0	-95.9	-282.7	-471.2	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-47.2	691.1	-322.9	-362.9	
Less: Finance Cost	-52.5	-166.2	-189.4	-140.7	
Dividend Paid	-423.9	-533.6	-355.1	-359.5	
Others	-20.0	-233.1	-168.2	-164.8	
CF from financing activities	-543.6	-241.7	-1,035.6	-1,027.8	
Net Cash flow	448.6	-685.3	-331.9	283.3	
Opening Cash	617.9	1,066.5	381.2	49.2	
Closing Cash	1,066.5	381.2	49.2	332.5	

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet		₹ crore			
(Year-end March)	FY19	FY20A	FY21E	FY22E	
Liabilities					
Equity Capital	88.8	88.8	88.8	88.8	
Reserve and Surplus	5,981.4	6,580.0	6,948.1	8,591.4	
Total Shareholders funds	6,070.2	6,668.8	7,036.9	8,680.2	
Total Debt	31.8	722.9	400.0	37.1	
Deferred Tax Liability	(68.8)	(152.8)	(152.8)	(147.5)	
Other long term liabilities	14.1	1,247.4	1,247.4	1,247.5	
Total Liabilities	6,047.2	8,486.2	8,531.5	9,817.3	
Assets					
Gross Block	1,784.2	2,066.9	2,246.9	2,561.9	
Less: Accu Depreciation	364.6	515.3	719.8	945.2	
Net Block	1,419.6	1,551.5	1,527.1	1,616.6	
Capital WIP	31.8	18.2	12.8	8.9	
Goodwill on Consolidation	123.0	123.0	123.0	123.0	
Total Fixed Assets	1,574.4	1,692.8	1,662.9	1,748.6	
Investments	132.4	182.0	200.1	240.2	
Inventory	7,038.8	8,103.0	7,566.3	8,644.7	
Debtors	420.5	311.6	373.6	492.1	
Loans and Advances	1,286.8	1,641.8	1,704.7	2,184.5	
Other Current Assets	-	-	-	-	
Cash	1,066.5	381.2	49.2	332.5	
Total Current Assets	9,812.6	10,437.5	9,693.9	11,653.8	
Creditors	3,258.9	2,181.3	1,868.2	2,659.9	
Other Current Liabilities	2,139.0	2,437.5	2,045.7	2,184.5	
Provisions	196.0	285.8	280.0	269.5	
Total Current Liabilities	5,593.9	4,904.6	4,193.9	5,113.8	
Net Current Assets	4,218.7	5,532.9	5,500.0	6,540.0	
Others Non Current Assets	121.7	1,078.6	1,168.6	1,288.6	
Application of Funds	6,047.2	8,486.2	8,531.5	9,817.3	

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios					
(Year-end March)	FY19	FY20A	FY21E	FY22E	
Per share data (₹)					
EPS	15.8	16.9	8.1	22.6	
Cash EPS	17.5	20.8	12.3	27.0	
BV	68.4	75.1	79.3	97.8	
DPS	3.8	5.0	4.0	4.1	
Cash Per Share	12.0	4.3	0.6	3.7	
Operating Ratios					
EBITDA Margin (%)	10.8	11.7	8.2	12.5	
PBT Margin (%)	10.6	10.0	5.6	11.0	
PAT Margin (%)	7.0	7.1	4.2	8.2	
Inventory days	129.9	140.5	162.0	130.0	
Debtor days	7.8	5.4	8.0	7.4	
Creditor days	60.1	37.8	40.0	40.0	
Return Ratios (%)					
RoE	23.1	22.5	10.3	23.1	
RoCE	32.3	28.7	13.7	30.3	
RoIC	40.3	31.0	14.2	31.2	
Valuation Ratios (x)					
P/E	67.3	63.0	130.7	47.2	
EV / EBITDA	43.8	38.5	68.2	31.0	
EV / Net Sales	4.7	4.5	5.6	3.9	
Market Cap / Sales	4.8	4.5	5.5	3.9	
Price to Book Value	15.6	14.2	13.4	10.9	
Solvency Ratios					
Debt/EBITDA	0.0	0.3	0.3	0.0	
Debt / Equity	0.0	0.1	0.1	0.0	
Current Ratio	1.8	2.1	2.3	2.3	
Quick Ratio	0.5	0.5	0.5	0.6	

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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