

Sector: Consumer Discretionary
Result Update

	Change
Reco: Buy	↔
CMP: Rs. 1,108	
Price Target: Rs. 1,200	↑
↑ Upgrade	↔ No change
↓ Downgrade	

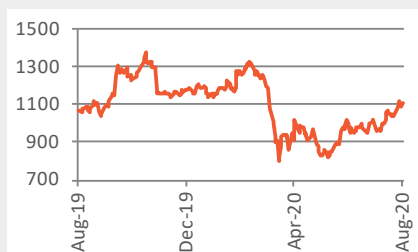
Company details

Market cap:	Rs. 98,349 cr
52-week high/low:	Rs. 1,390/720
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	17.6
DII	11.2
Others	18.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	15.2	33.5	-11.9	4.3
Relative to Sensex	10.8	12.5	-5.1	1.0

Sharekhan Research, Bloomberg

Titan Company Limited's (Titan) Q1FY2021 performance was affected by lesser days of operation of retail stores in all its business verticals affected by lockdown in the country during the spread of COVID-19. With gradual opening of stores, all businesses posted recovery in performance. However, the jewellery business posted faster recovery because of strong wedding demand, consumers shifting to trusted brands, good demand for Gold Harvest Scheme, and higher investment in gold coins, considering it as the safest bet for investment. Excluding bullion sales, revenue of the jewellery business declined by 70% in Q1FY2021. The business recovered to 80% of pre-COVID level in July and is likely to fully recover by Q3FY2021. Watches and eyewear businesses recovered to 20-30% of pre-COVID levels and full recovery will take some time. Q1 profitability was affected by unfavourable mix (contribution of studded jewellery was reduced to 18% from 25%), ineffective hedges, and lower operating leverage due to closure of stores. With recovery in sales, profitability would recover on a sequential basis, but will still remain lower on a y-o-y basis due to unfavourable mix and slow recovery in watches and eyewear business. We expect FY2022 to post strong recovery due to pent-up demand (mainly on account of postponement of weddings and likely higher sales during the festive season), market share gains from small players, and recovery in the watches and eyewear businesses.

Key positives

- ◆ Jewellery business has recovered back to 80% because of improving demand.
- ◆ Market share gained from small jewellers as large shift is happening to trusted brands.

Key negatives

- ◆ Unfavourable mix and lower operating leverage affected Q1 profitability.

Our Call

View: Maintain Buy with a revised PT of Rs. 1,200 - Gain in market share, people shifting to trusted brands, and relatively stable balance sheet make Titan a better play in the retail space. These drivers will enable the company to post faster recovery and strong performance in FY2022. We have introduced FY2023 estimates in this note. Current margin headwinds will subside with consistent recovery in the jewellery business and gradual recovery in other businesses. Hence, any weakness in a short span should be considered as an opportunity to enter into a quality retail play with strong parentage. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 1,200.

Key Risks

Any disruption in the recovery of the jewellery business would act as a key risk to our earnings estimates in the near term.

Valuations (consolidated)	Rs cr				
	FY19	FY20	FY21E	FY22E	FY23E
Revenue	19,779	21,052	18,207	24,776	27,834
OPM (%)	11.0	11.8	9.6	12.8	13.3
Adjusted PAT	1,519	1,519	988	2,002	2,371
% Y-o-Y growth	35.1	0.0	-34.9	102.6	18.4
Adjusted EPS (Rs.)	17.1	17.0	11.1	22.5	26.7
P/E (x)	64.9	65.1	99.5	49.1	41.5
P/B (x)	16.2	14.8	13.4	11.1	9.2
EV/EBIDTA (x)	44.9	40.2	57.2	31.0	26.3
RoNW (%)	27.2	23.8	14.1	24.8	24.3
RoCE (%)	37.2	30.6	16.5	29.3	30.5

Source: Company; Sharekhan estimates

Consolidated performance - Revenue declined by 62%, lower operating leverage resulted in operating loss: In Q1FY2021, Titan's consolidated revenue declined by 61.6% y-o-y to Rs. 1,979 crore as retail stores and malls remained shut in April and May. Revenue included sale of bullion of Rs. 601 crore done to reduce inventory, given the low level of sales. Standalone revenue declined by 74% y-o-y. Stores started opening from May-end and ~83% of stores were operational by June with gradual recovery in footfalls. Revenue growth of May and June was at about 15% and 63%, respectively, of the revenue of corresponding months of previous year. The recovery rate of revenue started improving slowly; and as of June, it was 21% for watches, 77% for jewellery, and 25% for eyewear businesses. Gross margin declined by 546 bps to 21.9% due to unfavourable revenue mix (lower studded ratio) and higher gold prices. Higher employee costs and other expenses resulted in an operating loss of Rs. 253 crore against profit of Rs. 574 crore despite lower ad spends. Lower other income and higher finance costs and depreciation charges led to loss before tax of Rs. 357 crore. Adjusted loss after tax came in at Rs. 293 crore in Q1FY2021 as against profit of Rs. 365 crore.

Jewellery business – Recovery at ~80%, full recovery likely in Q3: Revenue of the jewellery business (excluding bullion sale) declined by 71% y-o-y to Rs. 1,182 crore as stores remained closed in April and May. Revenue growth in May and June was at about 20% and 72%, respectively, compared to the same months of the previous year. Recovery in retail sales stood at 77% in June and 101% in July, driven by advancing studded activations and offers on gold jewellery. The first few days of August also witnessed good traction in plain gold jewellery. The recovery rate for studded jewellery was 67% in June and 59% in July. Recovery in the lower-priced band is still sluggish as compared to the mid-priced band. Studded ratio was down to 18% from 25% last year due to better recovery in demand for plain gold jewellery. Contribution from wedding jewellery moved up to 23% in June and 21% in July as against 20% last year as consumers preponed jewellery purchases owing to the fear of rising gold prices. Contribution from the Gold Harvest Scheme improved to 35% in June and 32% in July from 21-22% earlier. Tanishq retail stores registered value decline of 23% with like-to-like decline of 18% during the quarter. The business reported EBIT loss of Rs. 54 crore in Q1FY2021 as against profit of Rs. 442 crore in Q1FY2020. The company added net six Tanishq stores (17,000 square feet) in Q1FY2021, taking the total store count to 333. A complete recovery in the jewellery business is expected in Q3FY2021. Faster recovery in plain gold jewellery, preponement in demand for wedding jewellery, and gold being considered as a safe asset class are near-term growth drivers for the jewellery business.

Watches business – Weak demand, recovery expected in Q4: Revenue of the watches business fell by 90% y-o-y to Rs. 75 crore as malls remained closed and largely because watches and wearables are considered as a discretionary category. Trade channels were also hit badly. Revenue growth in May and June was at about 5% and 23%, respectively, compared to the same months of the previous year. Recovery was at 40% for combined sales and 32% for large format stores in June. Recovery was highest seen in e-commerce and retail stores, including World of Titan (WOT), Fastrack, and Helios. Retail stores of WOT, Fastrack, Helios and large format stores reported a decline in sales value growth as well as like-to-like growth of 29-86%. The business reported EBIT loss of Rs. 164 crore in Q1FY2021 as against profit of Rs. 128 crore in Q1FY2020. Titan added six WOT stores and one Helios store in Q1FY2020 on net basis. The watches business is expected to recover by Q4, driven by innovation, media campaigns, and betting on the gifting aspect.

Eyewear business – Subdued quarter, recovery to take time: Revenue of the eyewear business declined by 80% y-o-y to Rs. 30 crore as the category requires extended store level interaction with consumers, which was impacted as stores remained shut. Revenue growth in May and June was at about 15% and 35%, respectively, compared to the same months of the previous year. Recovery of the eyewear business was lower at 12% in May, 32% in June, and 39% in July. Titan Eye+ reported a 46% decline in retail sales and 44% decline in like-to-like sales. The business reported EBIT loss of Rs. 31 crore in Q1FY2021 as against Rs. 11 crore in Q1FY2020. The business closed 15 stores during the quarter, on net basis, ending up with a reduction of about 8,000 sq. ft. of retail space. The eyewear business will take some time to recover due to weak discretionary demand.

Other businesses declined by 85%: Recovery has been slower for Taneira with recovery rate standing at around 40% in June. Taneira launched Florelle collection, an exclusive collection of silk linen sarees in Q1FY2021. Titan did not open any Taneira stores during the quarter.

Better performance by subsidiaries

- ◆ Titan Engineering and Automation Limited (TEAL), which is a 100% owned subsidiary, registered strong performance with revenue decline of just 19% y-o-y to Rs. 77 crore on account of orders for supplying components for ventilators and medical devices capable of detecting TB and COVID-19. The aerospace business is, however, expected to get hit due to the demand situation. The business registered EBIT of Rs. 7 crore in Q1FY2021 as against Rs. 15 crore in Q1FY2020.
- ◆ Caratlane (72.3% owned subsidiary) recorded revenue decline of 67% y-o-y in Q1FY2021 to Rs. 44 crore because offline sales were impacted as most stores are located in malls that remained shut. Revenue in May and June recovered to 23% and 85%, respectively, compared to the same months of last year. Caratlane reported a 47% decline in retail sales and 41% decline in like-to-like sales. However, the online channel did exceptionally well once the e-commerce lockdown restrictions were lifted. The number of stores re-opened were 75% at the end of the quarter and 85% till date. The business reported loss of Rs. 14 crore in Q1FY2021 as against Rs. 5 crore in Q1FY2020. The company did not add any Caratlane stores during the quarter.

Result Snapshot (Consolidated)

Particulars	Rs cr				
	Q1FY21	Q1FY20	y-o-y (%)	Q4FY20	q-o-q (%)
Total Revenue	1979.0	5151.1	-61.6	4711.5	-58.0
Raw-material cost	1545.0	3740.4	-58.7	3277.9	-52.9
Employee cost	260.0	282.6	-8.0	284.7	-8.7
Advertising	21.0	151.8	-86.2	97.1	-78.4
Other expenses	406.0	402.6	0.8	439.3	-7.6
Total operating cost	2232.0	4577.5	-51.2	4099.1	-45.5
Operating profit	-253.0	573.6	-	612.5	-
Other income	41.0	57.1	-28.2	41.7	-1.7
Interest & other financial cost	52.0	33.9	53.6	42.7	21.7
Depreciation	93.0	76.0	22.4	102.1	-8.9
Profit Before Tax	-357.0	520.9	-	509.3	-
Tax	-64.0	156.0	-	166.2	-
Adjusted PAT before MI	-293.0	364.9	-	343.2	-
Extraordinary item	0.0	0.0	-	0.3	-
Minority Interest (MI)	-4.0	-0.9	-	-0.1	-
Reported PAT	-297.0	363.9	-	342.8	-
Adjusted EPS (Rs.)	-3.3	4.1	-	3.9	-
			bps		bps
GPM (%)	21.9	27.4	-546	30.4	-850
OPM (%)	-12.8	11.1	-	13.0	-

Source: Company; Sharekhan Research

Result Snapshot (Standalone)

Particulars	Rs cr				
	Q1FY21	Q1FY20	y-o-y (%)	Q4FY20	q-o-q (%)
Total Revenue	1862.0	4939.7	-62.3	4428.8	-58.0
Operating profit	-246.0	565.3	-	603.7	-
Reported PAT	-270.0	370.7	-	356.8	-
Adjusted EPS (Rs.)	-3.0	4.2	-	4.0	-
			bps		bps
GPM (%)	20.6	26.8	-622	30.1	-943
OPM (%)	-13.2	11.4	-	13.6	-

Source: Company; Sharekhan Research

Segmental Revenue

Particulars	Rs cr		
	Q1FY21	Q1FY20	y-o-y (%)
Watches	75	715	-90
Jewellery	1182	4047	-71
Eyewear	30	149	-80
Others/Corporate	13	85	-85
Standalone (w/o bullion sale)	1300	4996	-74.0
Jewellery bullion sale	601	0	-
Standalone revenue	1901	4996	-61.9
Caratlane	44	133	-67
TEAL	77	95	-19
Others/Consol. Adj	-1	-15	-
Consolidated	2021	5209	-61.2

Source: Company; Sharekhan Research

Segmental EBIT

Particulars	Rs cr		
	Q1FY21	Q1FY20	y-o-y (%)
Watches	-164	128	-
Jewellery	-54	442	-
Eyewear	-31	-11	-
Others/Corporate	-40	-5	-
Standalone	-289	554	-152.2
Caratlane	-14	-5	-
TEAL	7	15	-53.3
Others/Consol. Adj	-14	-10	-
Consolidated	-310	554	-156.0

Source: Company; Sharekhan Research

Retail growth in Q1FY2021

Particulars	Sales value growth	Like-to-like growth
Tanishq	-23%	-18%
Caratlane	-47%	-41%
World of Titan	-59%	-51%
Fastrack	-64%	-58%
Helios	-51%	-29%
LFS (for watches)	-86%	-84%
Titan Eye+	-46%	-44%

Source: Company

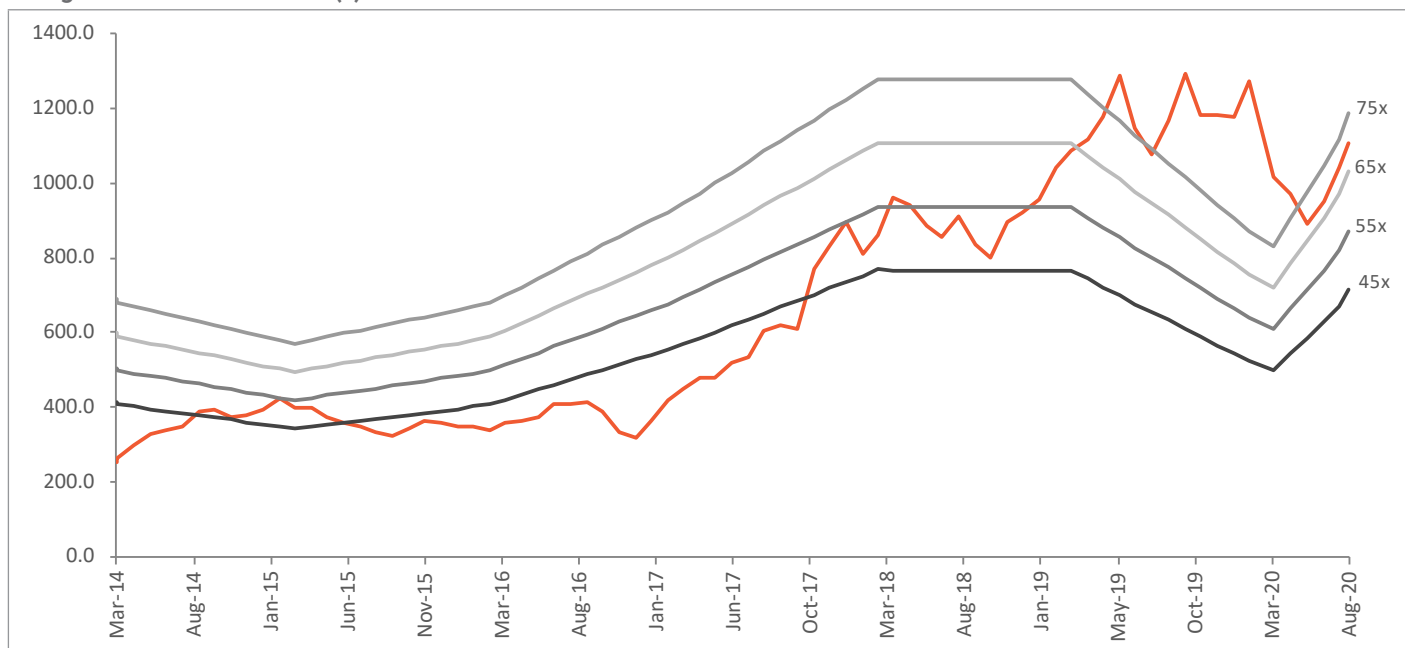
Outlook

FY2021 is expected to lull; Strong recovery anticipated in FY2022: The jewellery business recovered to 80% of pre-COVID level in July and is likely to fully recover by Q3FY2021. Watches and eyewear businesses recovered to 20-30% of pre-COVID levels and full recovery will take some time. Q1 profitability was affected by unfavourable mix (contribution of studded jewellery was reduced to 18% from 25%), ineffective hedges and lower operating leverage due to closure of stores. With recovery in sales, profitability would recover on a sequential basis but will still remain lower on a y-o-y basis due to unfavourable mix and slow recovery in watches and eyewear business. We expect FY2022 to post strong recovery due to pent-up demand (mainly on account of postponement of weddings and higher sales during the festive season), market share gains from small players, and recovery in the watches and eyewear businesses.

Valuation

Maintain Buy with a revised PT of Rs. 1,200: Gain in market share, people shifting to trusted brands, and relatively stable balance sheet make Titan a better play in the retail space. These drivers will enable the company to post faster recovery and strong performance in FY2022. We have introduced FY2023 estimates in this note. Current margin headwinds will subside with consistent recovery in the jewellery business and gradual recovery in other businesses. Hence, any weakness in a short span should be considered as an opportunity to enter into a quality retail play with strong parentage. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 1,200.

One-year forward EV/EBIDTA (x) chart



Source: Sharekhan Research

Peer valuation

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Trent	133.8	114.5	69.9	30.7	31.3	23.4	13.8	9.3	12.0
Titan Company	65.1	99.5	49.1	40.2	57.2	31.0	30.6	16.5	29.3

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. Titan has a retail chain of 1,829 stores across India with a retail area crossing 2.4 million sq. ft. nationally for all its brands.

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. Recovery is likely in the jewellery business by Q3FY2021, whereas eyewear and watches businesses will take some time to recover.

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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Republic of India	28.2
2	Jhunjhunwala Rakesh	4.4
3	Life Insurance Corporation of India	2.5
4	BlackRock Inc	1.3
5	Vanguard Group Inc	1.3
6	SBI Funds Management Pvt Ltd	1.2
7	Jhunjhunwala Rekha Rakesh	1.1
8	Matthews International Capital Management	1.1
9	UTI Asset Management Co Ltd	0.7
10	ICICI Prudential Asset Management Co Ltd	0.7

Source: Bloomberg

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