

Strong business model enables sharp recovery

In its preview of Q2FY21, the management indicated that Titan's jewellery division saw a sharp recovery in Q2FY21 signifying the inherent strength of the business model. Jewellery sales have now reached 98% of pre-Covid levels (on a comparatively lower base), which were higher than the management's expectations of 80% recovery rate. Despite various headwinds, Titan continued on its store addition spree by opening 14 Tanishq stores in H1FY21 (eight stores added in Q2FY21). The liquidity stress faced by regional unorganised players can play out as an opportunity for Titan. Titan's healthy balance sheet will enable it to capture market share growth opportunities through healthy store additions. Watches division recovery is sluggish with sales reaching 55% of pre-Covid levels in Q2FY21 (September: 70%). Sustained investments over the last three years to enhance digital presence have started yielding positive results during tough times. Going forward, the overall demand trend for the festive season in Q3FY21E appears positive.

Non-metro cities driving jewellery demand

Since the outbreak of the pandemic, perception of gold as an asset class has seen healthy traction. Demand for plain gold jewellery, gold coins has zoomed owing to a surge in gold prices. Overall recovery rate for jewellery division rose from 77% in June to 98% in Q2FY21. This was ahead of management expectations of 80% recovery rate. The recovery rate in non-metro cities has been substantial as majority of cities recorded positive growth in the quarter. Recovery rates in metro cities have been sluggish but are improving gradually. Tanishq, over the years, has gradually enhanced its penetration in rural markets with the company currently having ~50% of its store presence in rural areas. This has been one of the leading factors for a faster recovery. Wedding jewellery segment continued to perform well during the quarter while demand for studded jewellery remained weak. The company sold ₹ 390 crore worth of gold bullion inventory to manage cash flows. The performance for the quarter has been encouraging despite the challenging times. Furthermore, softening of gold prices augurs well for grammage growth recovery. We expect Tanishq to be in a positive trajectory in Q3FY21E itself on the back of strong demand during the festive season.

Valuation & Outlook

Given the encouraging demand recovery trends, we revise our revenue and earnings estimates upwards for FY21E by 10% and 15%, respectively. 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. We continue to remain structurally positive on the company and its long term growth prospects. We roll our estimates to FY23E and build in revenue CAGR of 13% in FY20-23E, mainly driven by growth in jewellery segment (15% CAGR). RoCE is expected to revert back to 30%+ levels by FY23E. We upgrade the stock from HOLD to **BUY** with a revised target price of ₹ 1450 (50.0x FY23E EPS, previous TP: 1170).

Key Financial Summary

(₹Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	19,778.5	21,051.5	18,846.1	26,515.2	30,718.2	13.4
EBITDA	2,136.5	2,466.6	1,542.6	3,270.4	3,814.7	15.6
PAT	1,404.2	1,501.4	836.8	2,176.8	2,554.9	19.4
EPS (₹)	15.8	16.9	9.4	24.5	28.8	
P/E (x)	79.3	74.2	133.1	51.2	43.6	
EV/Sales (x)	5.6	5.3	5.9	4.2	3.6	
EV/EBITDA (x)	51.7	45.3	72.4	34.0	29.0	
RoCE (%)	32.3	28.7	15.5	32.0	31.4	
RoE (%)	23.1	22.5	11.7	24.4	23.8	

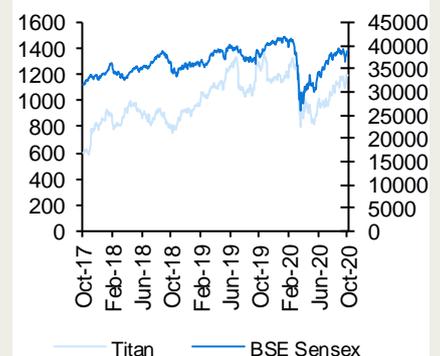
Source: ICICI Direct Research, Company



Particulars

Particular	Amount
Market Capitalisation (₹Crore)	111,417.1
Debt (FY 20) (₹Crore)	722.9
Cash (FY 20) (₹Crore)	381.2
EV (₹Crore)	111,758.9
52 week H/L	1389 / 720
Equity Capital (₹Crore)	88.8
Face Value (₹)	1

Price Chart



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Other key highlights

- Customer walk-ins have been improving gradually with an increase in conversion ratios and average ticket size
- Re-opening of malls has led to stores resuming operations. However, footfalls are still relatively low in store malls
- With healthy traction in sales, the company has resumed store expansion plans
- Titan's jewellery division launched new collection, 'Rooted from Zoya' during the quarter that gained strong acceptance. The company has designs ready in the pipeline for the upcoming festive season
- The company added 14 Tanishq stores (~60,000 sq ft) in H1FY21
- The recovery rate in the watches division is improving on a monthly basis with the rate increasing from 40% in July to 70% in September. E-commerce is leading the recovery with absolute growth but the trade channel continues to see challenges, primarily due to destocking
- Titan launched 'Gift a Titan' campaign during the quarter, which focused on gifting watches as need for dressing up was lower
- Titan crossed a significant milestone in the quarter by launching its first full touch smart watch, 'Titan Connected X', which received strong traction. Another significant product launch was 'Titan Pay', which enables contactless payments
- The eyewear division had a recovery rate of 58% in Q2FY21 with recovery of 70% in September
- 'Taneira' launched its first store in Chennai during the quarter, taking the total store count to 13 covering six cities. Further, all existing stores of Taneira' reopened post lockdown and were operational at the end of Q2
- The recovery rate for fragrances and accessories was ~50%, dragged down by a slow recovery in two of the biggest channels, trade and LFS

Exhibit 1: Change in estimates

(₹Crore)	FY21E			FY22E			FY23E
	Old	New	% Change	Old	New	% Change	Introduced
Revenue	17,047.5	18,846.1	10.6	24,271.7	26,515.2	9.2	30,718.2
EBITDA	1,390.8	1,542.6	10.9	3,037.8	3,270.4	7.7	3,814.7
EBITDA Margin (%)	8.2	8.2	3 bps	12.5	12.3	-18 bps	12.4
PAT	723.3	836.8	15.7	2,002.8	2,176.8	8.7	2,554.9
EPS (₹)	8.1	9.4	15.8	22.6	24.5	8.5	28.8

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit & Loss Statement				
(Year-end March)	FY20A	FY21E	FY22E	FY23E
Total operating Income	21,051.5	18,846.1	26,515.2	30,718.2
Growth (%)	6.4	-10.5	40.7	15.9
Raw Material Expenses	15,155.1	13,927.3	19,197.0	22,240.0
Employee Expenses	1,199.4	1,281.5	1,405.3	1,566.6
Mfg, Admin & selling Exps	2,230.5	2,094.7	2,642.5	3,096.9
Total Operating Expenditure	18,585.0	17,303.5	23,244.8	26,903.5
EBITDA	2,466.6	1,542.6	3,270.4	3,814.7
Growth (%)	15.5	-37.5	112.0	16.6
Depreciation	348.0	372.7	395.6	437.7
Interest	166.2	189.4	140.7	154.3
Other Income	153.2	130.2	169.3	186.3
PBT	2,105.7	1,110.7	2,903.4	3,408.9
Exceptional items*	0.0	0.0	0.0	0.0
Total Tax	609.0	279.9	731.7	859.1
Share of JV/Minority int	4.7	6.0	5.0	5.0
PAT	1,501.4	836.8	2,176.8	2,554.9
Growth (%)	6.9	-44.3	160.1	17.4
EPS (₹)	16.9	9.4	24.5	28.8

Source: Company, ICICI Direct Research

Exhibit 3: Cash Flow Statement				
(Year-end March)	FY20A	FY21E	FY22E	FY23E
PAT	1,501.4	836.8	2,176.8	2,554.9
Add: Depreciation	348.0	372.7	395.6	437.7
Add: Finance Cost	166.2	189.4	140.7	154.3
(Inc)/dec in Current Assets	-1,310.3	13.7	-2,223.3	-1,944.3
Inc/(dec) in CL and Provisions	-1,000.0	-283.3	1,047.4	857.6
Others	-53.0	0.0	0.0	0.0
CF from operating activities	-347.8	1,129.3	1,537.0	2,060.2
(Inc)/dec in Investments	-49.5	-18.2	-40.0	-48.0
(Inc)/dec in Fixed Assets	-316.0	-180.0	-315.0	-320.0
(Inc)/dec in CWIP	13.5	5.5	3.8	2.7
Others	256.1	-90.0	-50.0	-50.0
CF from investing activities	-95.9	-282.7	-401.2	-415.4
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	691.1	-322.9	-362.9	-3.7
Less: Finance Cost	-166.2	-189.4	-140.7	-154.3
Dividend Paid	-533.6	-355.1	-390.8	-765.5
Others	-233.1	-168.2	-164.3	-180.1
CF from financing activities	-241.7	-1,035.6	-1,058.7	-1,103.6
Net Cash flow	-685.3	-189.0	77.2	541.2
Opening Cash	1,066.5	381.2	192.1	269.3
Closing Cash	381.2	192.1	269.3	810.5

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet				
(Year-end March)	FY20A	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	88.8	88.8	88.8	88.8
Reserve and Surplus	6,580.0	7,061.7	8,847.6	10,637.1
Total Shareholders funds	6,668.8	7,150.5	8,936.4	10,725.8
Total Debt	722.9	400.0	37.1	33.4
Deferred Tax Liability	(152.8)	(152.8)	(147.0)	(140.2)
Other long term liabilities	1,247.4	1,247.4	1,247.5	1,247.5
Total Liabilities	8,486.2	8,645.1	10,074.0	11,866.5
Assets				
Gross Block	2,066.9	2,246.9	2,561.9	2,881.9
Less: Accu Depreciation	515.3	719.8	945.2	1,195.9
Net Block	1,551.5	1,527.1	1,616.6	1,685.9
Capital WIP	18.2	12.8	8.9	6.3
Goodwill on Consolidation	123.0	123.0	123.0	123.0
Total Fixed Assets	1,692.8	1,662.9	1,748.6	1,815.2
Investments	182.0	200.1	240.2	288.2
Inventory	8,103.0	7,745.0	9,443.8	10,940.7
Debtors	311.6	413.1	435.9	505.0
Loans and Advances	1,641.8	1,884.6	2,386.4	2,764.6
Other Current Assets	-	-	-	-
Cash	381.2	192.1	269.3	810.5
Total Current Assets	10,437.5	10,234.8	12,535.3	15,020.8
Creditors	2,181.3	2,065.3	3,269.0	3,787.2
Other Current Liabilities	2,437.5	2,261.5	2,121.2	2,457.5
Provisions	285.8	294.4	278.4	281.6
Total Current Liabilities	4,904.6	4,621.3	5,668.6	6,526.2
Net Current Assets	5,532.9	5,613.5	6,866.6	8,494.6
Others Non Current Assets	1,078.6	1,168.6	1,218.6	1,268.6
Application of Funds	8,486.2	8,645.1	10,074.0	11,866.5

Source: Company, ICICI Direct Research

Exhibit 5: Key Ratios				
(Year-end March)	FY20A	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	16.9	9.4	24.5	28.8
Cash EPS	20.8	13.6	28.9	33.7
BV	75.1	80.5	100.7	120.8
DPS	5.0	4.0	4.4	8.6
Cash Per Share	4.3	2.2	3.0	9.1
Operating Ratios				
EBITDA Margin (%)	11.7	8.2	12.3	12.4
PBT Margin (%)	10.0	5.9	11.0	11.1
PAT Margin (%)	7.1	4.4	8.2	8.3
Inventory days	140.5	150.0	130.0	130.0
Debtor days	5.4	8.0	6.0	6.0
Creditor days	37.8	40.0	45.0	45.0
Return Ratios (%)				
RoE	22.5	11.7	24.4	23.8
RoCE	28.7	15.5	32.0	31.4
RoIC	31.0	16.3	34.0	35.0
Valuation Ratios (x)				
P/E	74.2	133.1	51.2	43.6
EV / EBITDA	45.3	72.4	34.0	29.0
EV / Net Sales	5.3	5.9	4.2	3.6
Market Cap / Sales	5.3	5.9	4.2	3.6
Price to Book Value	16.7	15.6	12.5	10.4
Solvency Ratios				
Debt/EBITDA	0.3	0.3	0.0	0.0
Debt / Equity	0.1	0.1	0.0	0.0
Current Ratio	2.1	2.2	2.2	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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