

## Growth trajectory accelerates significantly in Q4...

Titan published its Q4FY21 business update wherein headline numbers were significantly ahead of consensus estimates. Key takeaways: a) increase in market share in southern region (Tamil Nadu), which has traditionally been a stronghold of regional jewellers, b) reported robust growth of ~70% in Q4FY21 (supported by favourable base and large B2B orders for gold coins), c) demand for wedding jewellery witnessed healthy offtake with overall share increasing in the pie, d) robust growth witnessed in both metro and non-metro cities, f) watches division reported flattish sales while eyewear division registered 20% revenue growth. Robust performance in challenging times reaffirms our thesis of long term market share gains for Titan.

## Jewellery glitters with strong end to subdued FY21...

With a complete washout in Q1FY21 (70% decline), Titan's jewellery division ended the year on a strong note with marginal sales growth of ~3% in FY21 (excluding gold bullion sale). This signifies the inherent strength of the business model and its strong brand patronage. With a healthy recovery in Q3FY21 itself (15% revenue growth), momentum accelerated even further with Titan reporting 32% sales growth YoY in January-February 2021 (excluding B2B order). On a benign base, Tanishq reported 70% YoY growth in Q4FY21 with 10% growth being contributed by a large B2B order for gold coins. Thrust on wedding space is bearing fruit with wedding jewellery becoming a critical growth driver during the year and its share in overall jewellery revenue increasing meaningfully. New design launches and campaigns have enabled Tanishq to gain market share in the wedding space wherein originally it had a limited presence. Tanishq had embarked on a journey through "Hero Market", wherein the company would focus on cities where it has significantly lower market share (where share is lower than its national average). The strategy has played out well with Titan reporting healthy growth in Tamil Nadu, which has traditionally been a stronghold of regional players. Recent softness in gold prices may result in better grammage recovery (6% decline QoQ). We expect Tanishq to report positive grammage growth in Q4FY21 after six consecutive quarters of negative growth. On the profitability front, gross margins are expected to remain under pressure as studded ratio is yet to recover to its pre-Covid levels and higher proportion of gold coins in the mix.

## Valuation & Outlook

Despite various headwinds, Titan has, over the years, withstood challenges and emerged as a resilient player. Focus on markets share gains and maintaining balance sheet strength (RoCE: 30%+) position Titan as our preferred pick in the discretionary category. Though the near term may present a volatile demand scenario, we believe Titan is a structural growth story and appears to be a key beneficiary of the unorganised to organised shift in the Indian jewellery market. We broadly maintain our estimates for FY22-23E and build in revenue, earnings CAGR of 14%, 22%, respectively, in FY20-23E. We reiterate **BUY** rating on the stock and maintain target price of ₹ 1830 (60x FY23E EPS).



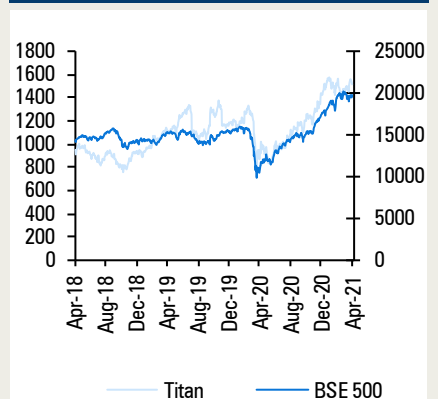
### Particulars

Market Capitalisation (₹ Crore)	1,39,382.4
Debt (FY20) (₹ Crore)	722.9
Cash (FY20) (₹ Crore)	381.2
EV (₹ Crore)	1,39,724.1
52 week H/L	1620 / 819
Equity Capital (₹ Crore)	88.8
Face Value (₹)	1

### Key Risks

- Re-imposition of lockdown restrictions across regions leading to store closures or restricted movement of people negatively impacting store footfalls leading to lower in-store sales
- Delay in expansion of stores can negatively impact the expected revenue growth

### Price Performance



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### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	19,778.5	21,051.5	21,486.0	26,956.1	31,459.8	14.3
EBITDA	2,136.5	2,466.6	1,851.4	3,322.9	4,065.7	18.1
PAT	1,404.2	1,501.4	1,058.0	2,174.2	2,704.0	21.7
EPS (₹)	15.8	16.9	11.9	24.5	30.5	
P/E (x)	99.3	92.8	131.7	64.1	51.5	
EV/Sales (x)	7.0	6.6	6.5	5.1	4.4	
EV/EBITDA (x)	64.8	56.6	75.2	41.5	33.7	
RoCE (%)	32.3	28.7	18.9	31.8	32.7	
RoE (%)	23.1	22.5	14.4	23.7	24.5	

## Financial summary

Exhibit 1: Profit and loss statement		₹ crore			
(Year-end March)	FY20A	FY21E	FY22E	FY23E	
Total operating Income	21,051.5	21,486.0	26,956.1	31,459.8	
Growth (%)	6.4	2.1	25.5	16.7	
Raw Material Expenses	15,155.1	16,200.4	19,597.1	22,808.4	
Employee Expenses	1,199.4	1,160.2	1,347.8	1,510.1	
Mfg. Admin & selling Exps	2,230.5	2,273.9	2,688.3	3,075.7	
Total Operating Expenditure	18,585.0	19,634.6	23,633.2	27,394.2	
<b>EBITDA</b>	<b>2,466.6</b>	<b>1,851.4</b>	<b>3,322.9</b>	<b>4,065.7</b>	
Growth (%)	15.5	-24.9	79.5	22.4	
Depreciation	348.0	382.8	398.4	437.7	
Interest	166.2	200.0	169.3	171.7	
Other Income	153.2	137.9	144.8	152.0	
PBT	2,105.7	1,406.4	2,900.0	3,608.3	
Exceptional items*	0.0	0.0	0.0	0.0	
Total Tax	609.0	354.4	730.8	909.3	
Share of JV/Minority int	4.7	6.0	5.0	5.0	
<b>PAT</b>	<b>1,501.4</b>	<b>1,058.0</b>	<b>2,174.2</b>	<b>2,704.0</b>	
Growth (%)	6.9	-29.5	105.5	24.4	
<b>EPS (₹)</b>	<b>16.9</b>	<b>11.9</b>	<b>24.5</b>	<b>30.5</b>	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement		₹ crore			
(Year-end March)	FY20A	FY21E	FY22E	FY23E	
PAT	1,501.4	1,058.0	2,174.2	2,704.0	
Add: Depreciation	348.0	382.8	398.4	437.7	
Add: Finance Cost	166.2	200.0	169.3	171.7	
(Inc)/dec in Current Assets	-1,310.3	-510.0	-795.8	-1,812.2	
Inc/(dec) in CL and Provisions	-1,000.0	343.9	511.6	919.6	
Others	-53.0	0.0	0.0	0.0	
<b>CF from operating activities</b>	<b>-347.8</b>	<b>1,474.7</b>	<b>2,457.7</b>	<b>2,420.8</b>	
(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	
<b>CF from investing activities</b>	<b>-95.9</b>	<b>-282.7</b>	<b>-401.2</b>	<b>-415.4</b>	
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	-200.0	-169.3	-171.7	
Dividend Paid	-533.6	-355.1	-390.4	-810.2	
Others	-233.1	-173.8	-172.9	-186.9	
<b>CF from financing activities</b>	<b>-241.7</b>	<b>-1,051.9</b>	<b>-1,095.5</b>	<b>-1,172.6</b>	
Net Cash flow	-685.3	140.1	961.0	832.9	
Opening Cash	1,066.5	381.2	521.3	1,482.3	
<b>Closing Cash</b>	<b>381.2</b>	<b>521.3</b>	<b>1,482.3</b>	<b>2,315.2</b>	

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet		₹ crore			
(Year-end March)	FY20A	FY21E	FY22E	FY23E	
<b>Liabilities</b>					
Equity Capital	88.8	88.8	88.8	88.8	
Reserve and Surplus	6,580.0	7,282.9	9,066.7	10,960.5	
Total Shareholders funds	6,668.8	7,371.6	9,155.5	11,049.3	
Total Debt	722.9	400.0	37.1	33.4	
Deferred Tax Liability	(152.8)	(152.8)	(152.8)	(152.8)	
Other long term liabilities	1,247.4	1,247.4	1,247.5	1,247.5	
<b>Total Liabilities</b>	<b>8,486.2</b>	<b>8,866.2</b>	<b>10,287.2</b>	<b>12,177.4</b>	
<b>Assets</b>					
Gross Block	2,066.9	2,246.9	2,561.9	2,881.9	
Less: Accu Depreciation	515.3	724.3	949.7	1,200.4	
Net Block	1,551.5	1,522.6	1,612.1	1,681.4	
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	1,658.4	1,744.1	1,810.7	
Investments	182.0	200.1	240.2	288.2	
Inventory	8,103.0	7,946.9	8,493.0	9,825.8	
Debtors	311.6	470.9	443.1	517.1	
Loans and Advances	1,641.8	2,148.6	2,426.0	2,831.4	
Other Current Assets	-	-	-	-	
Cash	381.2	521.3	1,482.3	2,315.2	
Total Current Assets	10,437.5	11,087.7	12,844.4	15,489.5	
Creditors	2,181.3	2,354.6	3,323.3	3,878.6	
Other Current Liabilities	2,437.5	2,578.3	2,156.5	2,516.8	
Provisions	285.8	315.5	280.2	284.2	
Total Current Liabilities	4,904.6	5,248.5	5,760.0	6,679.6	
Net Current Assets	5,532.9	5,839.2	7,084.4	8,809.9	
Others Non Current Assets	1,078.6	1,168.6	1,218.6	1,268.6	
<b>Application of Funds</b>	<b>8,486.2</b>	<b>8,866.2</b>	<b>10,287.2</b>	<b>12,177.4</b>	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios		FY20A	FY21E	FY22E	FY23E
(Year-end March)					
<b>Per share data (₹)</b>					
EPS		16.9	11.9	24.5	30.5
Cash EPS		20.8	16.2	28.9	35.3
BV		75.1	83.0	103.1	124.5
DPS		5.0	4.0	4.4	9.1
Cash Per Share		4.3	5.9	16.7	26.1
<b>Operating Ratios</b>					
EBITDA Margin (%)		11.7	8.6	12.3	12.9
PBT Margin (%)		10.0	6.5	10.8	11.5
PAT Margin (%)		7.1	4.9	8.0	8.6
Inventory days		140.5	135.0	115.0	114.0
Debtor days		5.4	8.0	6.0	6.0
Creditor days		37.8	40.0	45.0	45.0
<b>Return Ratios (%)</b>					
RoE		22.5	14.4	23.7	24.5
RoCE		28.7	18.9	31.8	32.7
RoIC		31.0	20.8	39.1	42.8
<b>Valuation Ratios (x)</b>					
P/E		92.8	131.7	64.1	51.5
EV / EBITDA		56.6	75.2	41.5	33.7
EV / Net Sales		6.6	6.5	5.1	4.4
Market Cap / Sales		6.6	6.5	5.2	4.4
Price to Book Value		20.9	18.9	15.2	12.6
<b>Solvency Ratios</b>					
Debt/EBITDA		0.3	0.2	0.0	0.0
Debt / Equity		0.1	0.1	0.0	0.0
Current Ratio		2.1	2.1	2.2	2.3
Quick Ratio		0.5	0.6	0.8	0.8

Source: Company, ICICI Direct Research

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Sell: <-15%



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