



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	■	✓	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

Reco/View	Change
Reco: Buy	↔
CMP: Rs. 1,549	
Price Target: Rs. 1,710	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

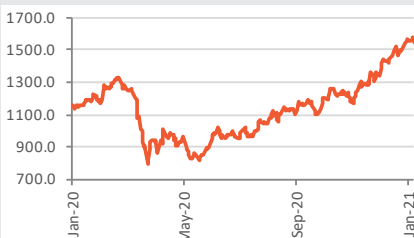
Company details

Market cap:	Rs. 137,518 cr
52-week high/low:	Rs. 1,621 / 720
NSE volume: (No of shares)	31.2 lakh
BSE code:	500114
NSE code:	TITAN
Free float: (No of shares)	41.8 cr

Shareholding (%)

Promoters	52.9
FII	18.7
DII	11.5
Others	16.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.4	23.3	56.0	33.0
Relative to Sensex	0.1	1.9	21.7	15.4

Sharekhan Research, Bloomberg

Summary

- We maintain a Buy on Titan Company (Titan) with a revised PT of Rs. 1,710; expected strong recovery in FY2022 and robust return profile make it a better play in retail space.
- Jewellery sales grew by 15% in Q3, as festive demand uptick sustained during rest of the quarter. Watches and Eyewear businesses recovered to 88% and 92% in Q3 and are expected to fully recover by Q4.
- Better operating leverage would help margins to recover q-o-q and stand at ~11% in Q3; FY2022, OPM is expected to be 12.5-13%.
- Higher wedding demand, share gains from small players and improvement in discretionary spends would help jewellery business achieve good growth in FY22/23. Watches to see strong recovery as wearable and bands gaining strong traction.

Titan retained a strong festive momentum with the jewellery business growing by 15% in Q3FY2021. Strong traction was seen in wedding jewellery purchases with a higher ticket size with a rise in wedding purchases and soaring gold prices. The highlight of the quarter was good recovery witnessed in store walk-ins and pick-up in sales in metros and top cities. Share of studded jewellery (stood at 26% in Q2 and 18% in Q1) continues to improve but is yet to reach pre-COVID levels. Raw gold sales stood at Rs. 334crore, while the share of gold coins remained higher. On the other hand, businesses such as Watches and Eyewear recovered to 88% and 92% in Q3FY2021 respectively better than management earlier guidance (versus a 55% and 61% recovery achieved in Q2FY2021). We expect overall operating margins (OPM) to recover to ~11% in Q3FY2021 compared with 6.9% in Q2FY2021 mainly on account of better operating leverage. Higher demand for wedding jewellery due to a delayed wedding season, market share gained from small jewellers and further store additions in tier-2 and tier-3 towns would help the jewellery business maintain the double-digit growth momentum. The watches business has seen a better-than-expected recovery and with a month-on-month recovery in footfalls, increase in omni-channel capabilities, higher online sales and strong demand for wearable would help watches business to achieve strong growth in FY2022-23 with a steady improvement in the business margins. Titan is restructuring the eyewear business model by closing down non-profitable stores and introducing 'Eco Lite' stores requiring lower investment. This will help improve profitability of the business in the long run. The company has closed down 52 stores and added 39 stores in Q3. Improving volumes in the jewellery business, recovery in the watches business and shutting down of non-profitable eyewear stores would help the OPM to recover to double digits in FY2022. This will further help the return ratios to post stark recovery in FY2022 with RoE and RoCE expected to stand at 26% and 31%, respectively.

Our Call

**View - Retain Buy with a revised price target of Rs. 1,710:** For Titan's jewellery business, the festive demand momentum continued to fetch benefits. We expect a double-digit growth trajectory in the jewellery business to sustain with sustained higher demand for wedding jewellery. In the eyewear business, the focus is on improving the profitability while in watches the focus is more on achieving sustainable revenue growth in the coming years. Overall, we expect Titan to benefit from people shifting to trusted brands and market share gains. This, along with a relatively stable balance sheet and strong return profile, makes it a better play in the retail space. We maintain our Buy recommendation on the stock with revised price target of Rs. 1,710.

Key Risks

Any disruption in the recovery of jewellery business due to spike in the covid cases in various states would act as a key risk to the earnings estimates.

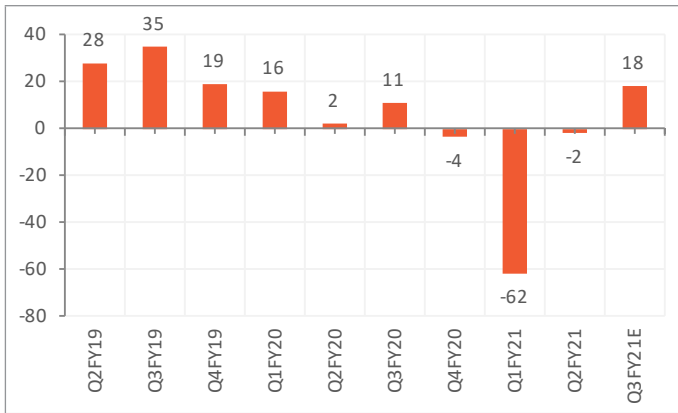
Valuations (Consolidated)

Particulars	Rs cr				
	FY19	FY20	FY21E	FY22E	FY23E
Revenue	19,779	21,052	19,536	26,253	29,480
OPM (%)	11.0	11.8	9.6	12.8	13.3
Adjusted PAT	1,519	1,519	1,083	2,142	2,533
% Y-o-Y growth	35.1	0.0	-28.7	97.9	18.2
Adjusted EPS (Rs.)	17.1	17.0	12.2	24.1	28.5
P/E (x)	90.8	91.0	127.0	64.2	54.3
P/B (x)	22.7	20.6	18.5	15.2	12.4
EV/EBIDTA (x)	63.0	55.9	74.2	40.9	34.8
RoNW (%)	27.2	23.8	15.3	26.0	25.2
RoCE (%)	37.2	30.6	17.8	30.7	31.6

Source: Company; Sharekhan estimates

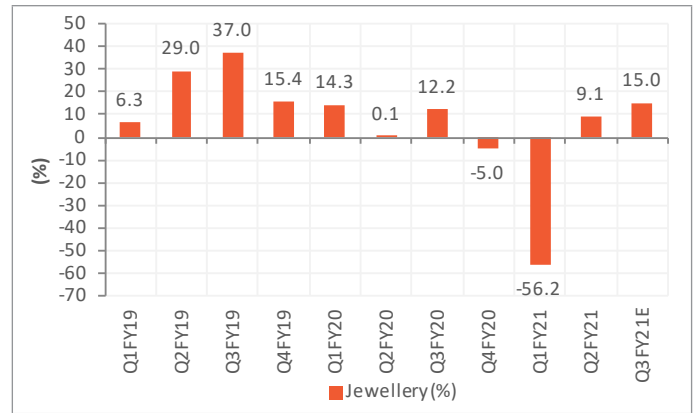
Financials in charts

Revenue growth to recover to double digit in Q3



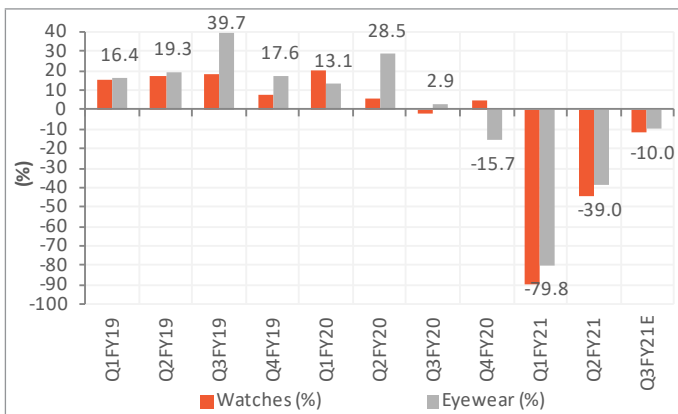
Source: Company, Sharekhan Research

Jewellery business to grow in double digits in Q3



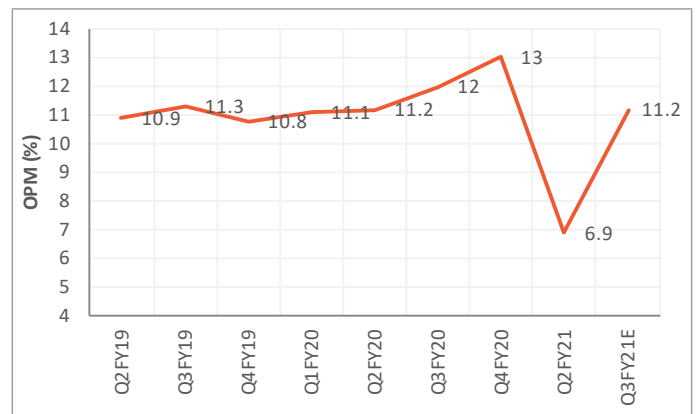
Source: Company, Sharekhan Research

Watches and Eyewear will reach close to pre-covid levels



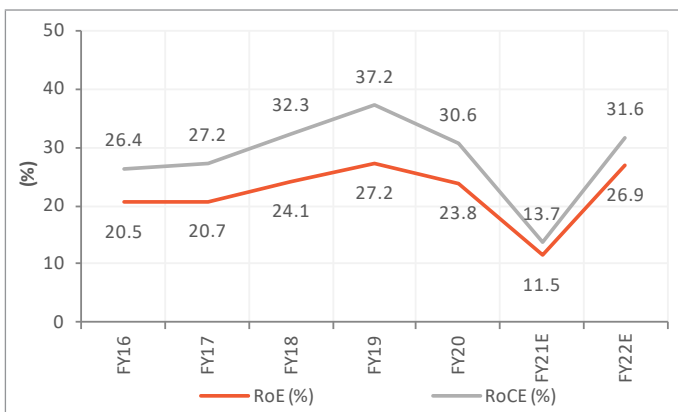
Source: Company, Sharekhan Research

OPM will get back in double digit zone in Q3



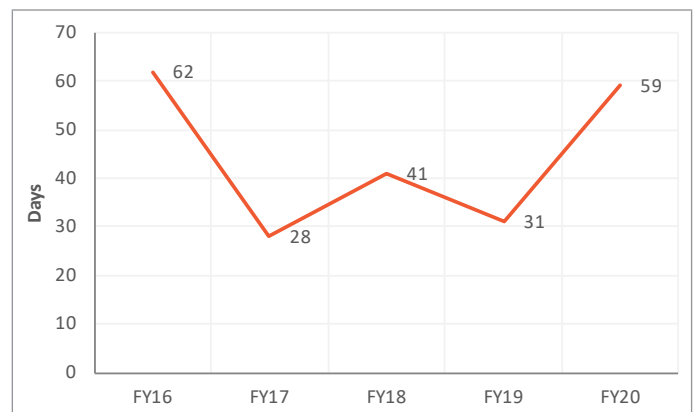
Source: Company, Sharekhan Research

Strong return profile



Source: Company, Sharekhan Research

Trend in working capital cycle



Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector Outlook: festive season bringing some cheer for retail companies

Stores of retail and jewellery companies have opened up in most cities post the easing of lockdown norms, resulting in gradual recovery in footfalls during the festive season. With inter-city travel resuming and an increase in out-of-home consumption products (such as apparels and watches), footwear companies will also post strong recovery in Q3. With malls reopening and better festive/wedding demand, we will see apparel/jewellery companies performing better in H2FY2021. Profitability would be severely impacted in FY2021, while we expect it to come back on track in FY2022 (with better operating leverage on back of strong recovery in sales). However, the sector's long-term growth prospects are intact as companies focus is on expanding their reach (by targeting tier-II and-III towns), banking on e-Commerce/online channels to drive next leg of growth, improving store fundamentals and driving efficiencies to see better margins.

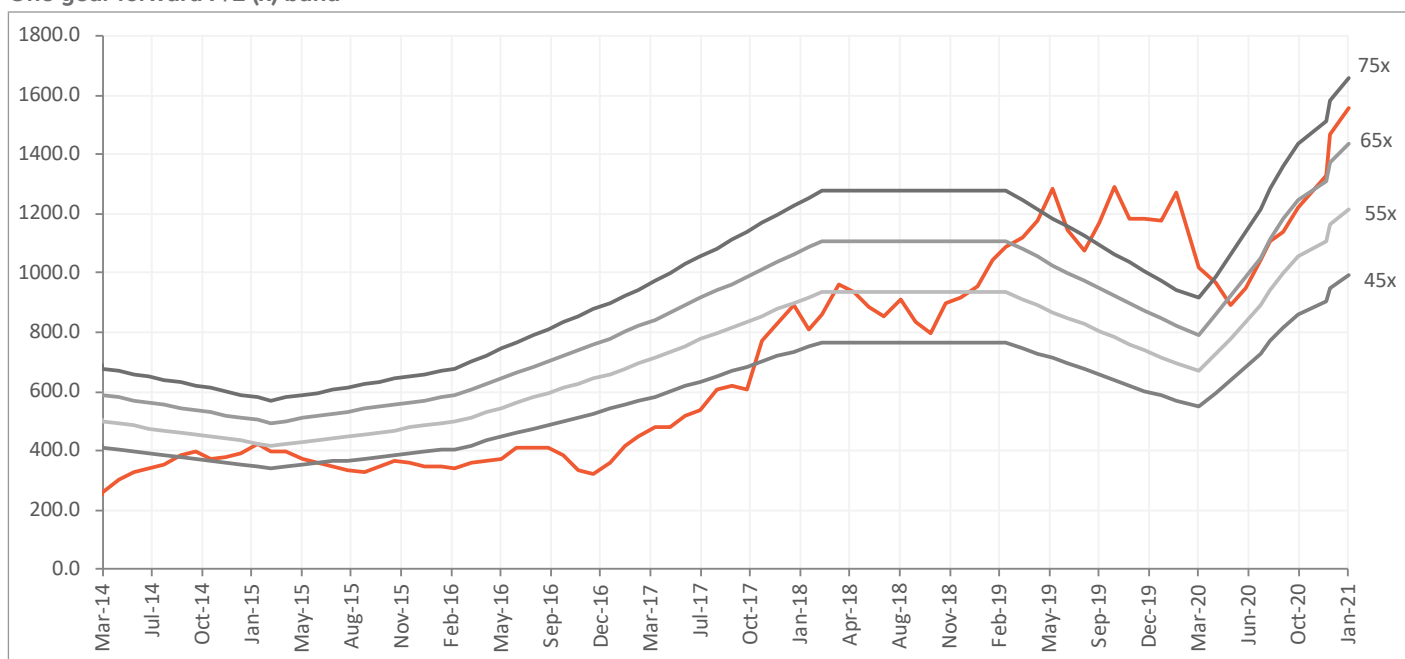
### ■ Company Outlook: Strong recovery anticipated in FY2022

The festive season brought in some cheers for Titan as jewellery sales saw double-digit growth in Q3. With the upcoming wedding season, the demand for jewellery is expected to remain high in the coming quarters. Further market share gains from small jewelers and increase in presence in the middle income towns would help Titan's jewellery business to post good performance in the coming years. The watches and eyewear divisions have seen a sequential improvement and would continue to benefit from higher online sales. Further, with a strong recovery anticipated in FY2022, consolidated OPM is expected to come back to 12-13% levels in FY2022.

### ■ Valuation - retain Buy with revised price target of Rs1710

For Titan's jewellery business, festive demand momentum continued to fetch benefits. We expect a double-digit growth trajectory in the jewellery business to sustain with sustained higher demand for wedding jewellery. In the eyewear business, the focus is on improving the profitability while in watches the focus is more on achieving sustainable revenue growth in the coming years. Overall, we expect Titan to benefit from people shifting to trusted brands and market share gains. This, along with a relatively stable balance sheet and strong return profile, makes it a better play in the retail space. We maintain our Buy recommendation on the stock with revised price target of Rs. 1,710.

#### One-year forward P/E (x) band



Source: Sharekhan Research

#### Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoE (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Trent	-	-	-	99.3	37.2	30.0	13.8	5.6	9.7
Titan Company	127.0	64.2	54.3	74.2	40.9	34.8	17.8	30.7	31.6

Source: Sharekhan Research

## 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, TitanEyeplus, 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 see full recovery by Q4FY2021 with gradual improvement in the discretionary demand.

## 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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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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