

Back on growth trajectory on festive demand...

Titan is among few discretionary companies in our coverage to have reverted back to healthy sales growth. Key takeaways from Q3FY21 results: a) jewellery division posted healthy sales growth of 16% YoY with fall in grammage arrested to 14% vs. 31% decline in Q2FY21, b) demand for gold coins continues to be on higher end YoY but share QoQ falling (Q3FY21: 8%, Q3FY20: 5%, Q2FY21: 14%), c) share of studded ratio on uptrend with absolute growth of 9% YoY in Q3FY21, with wedding jewellery also seeing strong growth of 10% YoY d) watches division showed sharp improvement QoQ but still below pre-Covid levels (~88%), e) increased its ad expenditure by 72% QoQ to ₹ 105 crore but still below its run-rate of ₹ 150-160 crore, f) despite gross margins declining 300 bps YoY, EBITDA margins contracted mere 50 bps YoY to 11% due to stringent cost control measures. Overall 12% sales growth in Q3FY21 is ahead of management's internal target of achieving normalcy by Q4FY21E. Revenue trajectory accelerated further in January with jewellery division seeing 28% YoY growth driven by 16% growth in studded ratio. Robust performance in challenging times reaffirms our thesis of long term market share gains for Titan.

Strong brand patronage provides competitive edge

Despite competition by regional players in terms of higher discounting, Titan has maintained its making charge percentage that has translated into higher making charges per gram for its jewellery portfolio. This reflects the inherent strength of the brand to absorb inflation in gold prices. We expect gross margins to gradually revert back to pre-Covid levels (27-28%) on the back of sustained improvement in share of studded ratio. Trends indicate that demand for wedding jewellery is expected to perk up (16% YoY growth witnessed in January), as people have cut down on other discretionary spends leading to higher share of wallet for jewellery. Also, softness in gold prices may result in better grammage recovery. The company expects certain savings on fixed cost to be structural in nature except for marketing expenses. On the balance sheet front, Titan has significantly focused on optimising inventory and generating cash flows in FY21. Total capital employed as on December 2020 for jewellery division has come down significantly from March levels (₹ 1857 crore vs. ₹ 3775 crore).

Valuation & Outlook

Factoring in the Q3FY21 performance and improvement in demand outlook, we revise our earnings estimates upwards by 3-7% for FY22-23E. The company's 'War on Waste' programme is well on track with tight control on inventory position and higher focus on gold on lease replenishment (~56% of inventory). We expect initiatives to improve cash positions and significantly enhance RoIC (from 31% in FY20 to ~42% in FY23E). We build in revenue and earnings CAGR of 14% and 22%, respectively in FY20-23E. Healthy balance sheet, sustained focus on market share gains and better earnings visibility prompts us to upgrade from HOLD to **BUY** with a revised target price of ₹ 1830 (60x FY23E EPS, previous TP: ₹ 1660).



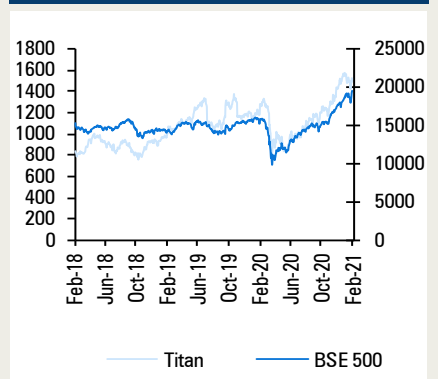
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	1,38,761.0
Debt (FY20) (₹ Crore)	722.9
Cash (FY20) (₹ Crore)	381.2
EV (₹ Crore)	1,39,102.7
52 week H/L	1620 / 720
Equity Capital (₹ Crore)	88.8
Face Value (₹)	1

Key Risks

- Re-imposition of lockdown restrictions 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	20,171.4	26,959.8	31,471.7	14.3
EBITDA	2,136.5	2,466.6	1,634.3	3,323.4	4,067.2	18.1
PAT	1,404.2	1,501.4	897.0	2,174.6	2,705.2	21.7
EPS (₹)	15.8	16.9	10.1	24.5	30.5	
P/E (x)	98.8	92.4	154.7	63.8	51.3	
EV/Sales (x)	7.0	6.6	6.9	5.1	4.3	
EV/EBITDA (x)	64.5	56.4	84.7	41.4	33.6	
RoCE (%)	32.3	28.7	16.5	32.4	33.2	
RoE (%)	23.1	22.5	12.4	24.2	24.8	

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Revenue	7619.0	7490.7	6527.4	16.7	4553.0	67.3	Grammage de-growth: 14%, gold prices up 32% YoY. Excluding the bullion sale of ₹ 340 crore, overall revenues grew by 12% YoY
Raw Material Expense	5,900.0	5,760.2	4,861.9	21.4	3,132.0	88.4	Gross margins contracted by 300 bps YoY on account of lower share of studded ratio
Employee Expenses	267.0	267.6	326.7	-18.3	248.0	7.7	
Advertising Expenses	105.0	148.6	167.9	-37.5	61.0	72.1	Marketing spends increased on a sequential basis
Other Expenses	499.0	416.2	412.4	21.0	799.0	-37.5	Other expense includes ineffective hedge cost worth ₹ 51 crore
EBITDA	848.0	898.1	758.4	11.8	313.0	170.9	Negative impact of gross margins was partially offset by rationalisation of fixed overheads
EBITDA Margin (%)	11.1	12.0	11.6	-49 bps	6.9	426 bps	
Depreciation	96.0	97.8	87.7	9.4	94.0	2.1	
Interest	51.0	50.0	44.7	14.0	49.0	4.1	
Other Income	40.0	23.6	22.7	76.3	48.0	-16.7	Other income includes rent waiver to the tune of ₹ 6 crore
PBT before Exceptional item	741.0	774.0	648.7	14.2	218.0	239.9	
Exceptional Item	0.0	0.0	0.0		0.0		
PBT	741.0	774.0	648.7	14.2	218.0	239.9	
Tax Outgo	211.0	194.8	174.0	21.2	44.0	379.5	
PAT	529.0	579.1	474.2	11.6	173.0	205.8	Steady operational performance led to PAT growth of 12% YoY

Key Metrics

Jewellery

Revenues (₹ Crore)	6,836.0	6,724.6	5,605.8	21.9	3,983.0	71.6	SSSG: 7%, Retail sales growth: 13%
Segment EBIT Margin (%)	11.2	NA	12.6		7.2		

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	18,846.0	20,171.4	7.0	26,642.0	26,959.8	1.2	31,088.7	31,471.7	1.2
EBITDA	1,429.5	1,634.3	14.3	3,203.7	3,323.4	3.7	3,830.4	4,067.2	6.2
EBITDA Margin (%)	7.6	8.1	52 bps	12.0	12.3	30 bps	12.3	12.9	60 bps
PAT	750.0	897.0	19.6	2,103.7	2,174.6	3.4	2,541.0	2,705.2	6.5
EPS (₹)	8.5	10.1	19.4	23.7	24.5	3.4	28.6	30.5	6.5

Source: Company, ICICI Direct Research

Key conference call takeaways

Jewellery segment

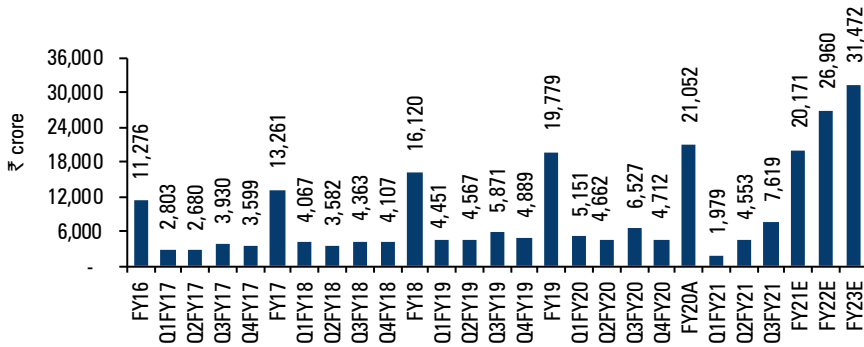
- The company liquidated excess gold inventory worth ₹ 340 crore in Q3FY21
- Demand for studded ratio improving every month. Revenue growth in January 2021 for the same was at 16% YoY with ratio of 39% vs. 43% in the previous year
- Sustained increase in footfalls and better wedding demand resulted in healthy growth of 28% in January for jewellery division
- Wedding jewellery contributes 20% to overall sales and management is confident of sustaining double digit growth in the coming quarters
- Omni-channel sales 3.5x of last year in 9MFY21
- On the store opening front, Titan added 24 Tanishq stores in 9MFY21. Owing to increased preference of consumers to shop locally, Titan intends to open the shops in new locations where it does not have a store presence
- The studded mix saw sequential improvement in Q3FY21 to 26%, although still lower compared to 29% in Q3FY20.
- EBIT margins for the jewellery division declined by 140 bps YoY to 11.2% owing to lower studded mix ratio and higher coin sales. The decline was partially recouped by reduction in fixed overheads
- The company during the quarter decided to significantly scale down operations of its wholly owned subsidiary, Favre Leuba and subsequently made impairment provision worth ₹ 137 crore

Watches and others:

- Watches division reported revenue de-growth of 12% YoY to ₹ 551 crore. The e-commerce channel is leading the recovery with very strong absolute growth of 30%+
- The management expects watches division to reach normalcy levels by Q4FY21
- The eyewear division recorded healthy recovery rate of 93% in Q3FY21 vs. 58% in Q2FY21. Better product mix, lower discounts compared to last year and cost control led to the EBIT improvement to ₹ 22 crore with EBIT margin of 18.1%

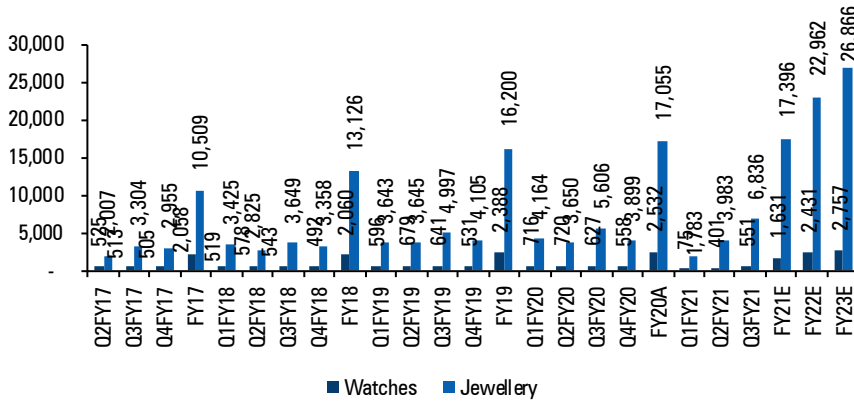
Financial story in charts

Exhibit 3: Revenue trend



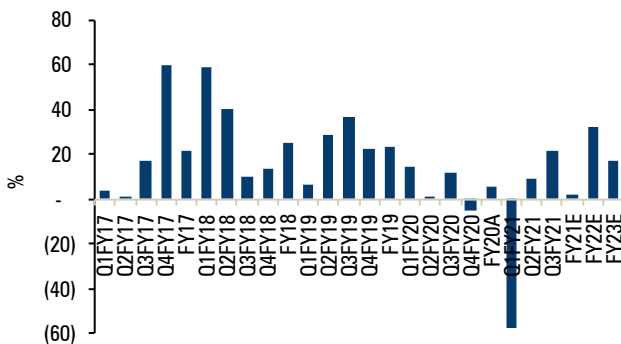
Source: Company, ICICI Direct Research

Exhibit 4: Divisional performance (revenue)



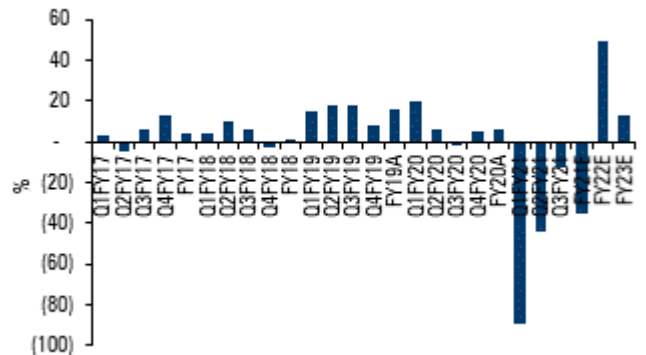
Source: Company, ICICI Direct Research

Exhibit 5: Jewellery segment growth



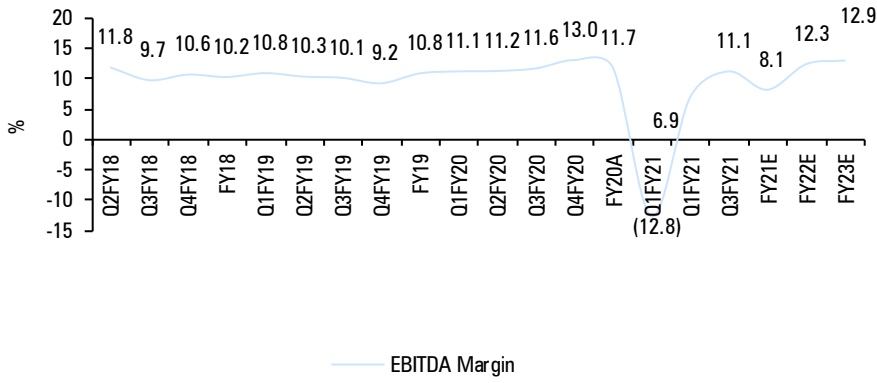
Source: Company, ICICI Direct Research

Exhibit 6: Watches segment growth



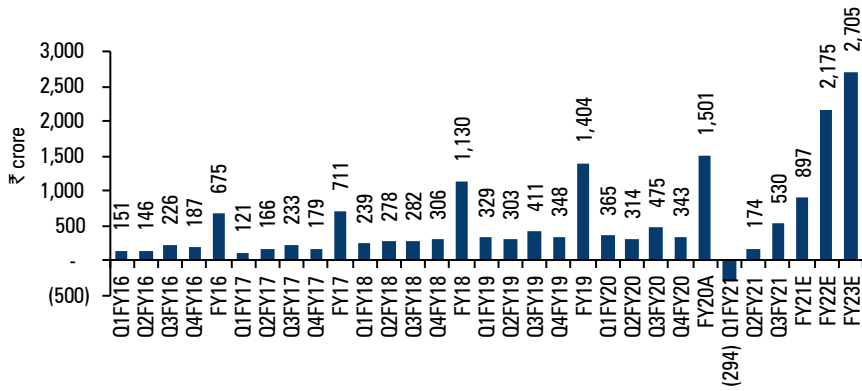
Source: Company, ICICI Direct Research

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	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY20A	21,051.5	6.4	16.9	6.9	92.4	56.4	22.5	28.7
FY21E	20,171.4	-4.2	10.1	-40.3	154.7	84.7	12.4	16.5
FY22E	26,959.8	33.7	24.5	142.4	63.8	41.4	24.2	32.4
FY23E	31,471.7	16.7	30.5	24.4	51.3	33.6	24.8	33.2

Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20A	FY21E	FY22E	FY23E
Total operating Income	21,051.5	20,171.4	26,959.8	31,471.7
Growth (%)	6.4	-4.2	33.7	16.7
Raw Material Expenses	15,155.1	15,209.2	19,599.8	22,817.0
Employee Expenses	1,199.4	1,129.6	1,348.0	1,510.6
Mfg, Admin & selling Exps	2,230.5	2,198.3	2,688.7	3,076.8
Total Operating Expenditure	18,585.0	18,537.1	23,636.4	27,404.5
EBITDA	2,466.6	1,634.3	3,323.4	4,067.2
Growth (%)	15.5	-33.7	103.4	22.4
Depreciation	348.0	381.0	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	1,191.2	2,900.5	3,609.9
Exceptional items*	0.0	0.0	0.0	0.0
Total Tax	609.0	300.2	730.9	909.7
Share of JV/Minority int	4.7	6.0	5.0	5.0
PAT	1,501.4	897.0	2,174.6	2,705.2
Growth (%)	6.9	-40.3	142.4	24.4
EPS (₹)	16.9	10.1	24.5	30.5

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20A	FY21E	FY22E	FY23E
PAT	1,501.4	897.0	2,174.6	2,705.2
Add: Depreciation	348.0	381.0	398.4	437.7
Add: Finance Cost	166.2	200.0	169.3	171.7
(Inc)/dec in Current Assets	-1,310.3	136.5	-1,443.8	-1,815.6
Inc/(dec) in CL and Provisions	-1,000.0	31.5	824.7	921.3
Others	-53.0	0.0	0.0	0.0
CF from operating activities	-347.8	1,646.0	2,123.1	2,420.3
(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	-200.0	-169.3	-171.7
Dividend Paid	-533.6	-355.1	-390.4	-810.6
Others	-233.1	-172.0	-172.9	-186.9
CF from financing activities	-241.7	-1,050.0	-1,095.5	-1,172.9
Net Cash flow	-685.3	313.3	626.3	832.0
Opening Cash	1,066.5	381.2	694.4	1,320.8
Closing Cash	381.2	694.4	1,320.8	2,152.8

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY20A	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	88.8	88.8	88.8	88.8
Reserve and Surplus	6,580.0	7,121.9	8,906.0	10,800.7
Total Shareholders funds	6,668.8	7,210.7	8,994.8	10,889.4
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
Total Liabilities	8,486.2	8,705.3	10,126.5	12,017.5
Assets				
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	7,460.7	8,494.2	9,829.5
Debtors	311.6	442.1	443.2	517.3
Loans and Advances	1,641.8	2,017.1	2,426.4	2,832.5
Other Current Assets	-	-	-	-
Cash	381.2	694.4	1,320.8	2,152.8
Total Current Assets	10,437.5	10,614.3	12,684.5	15,332.1
Creditors	2,181.3	2,210.6	3,323.8	3,880.1
Other Current Liabilities	2,437.5	2,420.6	2,156.8	2,517.7
Provisions	285.8	305.0	280.2	284.2
Total Current Liabilities	4,904.6	4,936.1	5,760.8	6,682.1
Net Current Assets	5,532.9	5,678.2	6,923.7	8,650.0
Others Non Current Assets	1,078.6	1,168.6	1,218.6	1,268.6
Application of Funds	8,486.2	8,705.3	10,126.5	12,017.5

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY20A	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	16.9	10.1	24.5	30.5
Cash EPS	20.8	14.3	28.9	35.3
BV	75.1	81.2	101.3	122.7
DPS	5.0	4.0	4.4	9.1
Cash Per Share	4.3	7.8	14.9	24.2
Operating Ratios				
EBITDA Margin (%)	11.7	8.1	12.3	12.9
PBT Margin (%)	10.0	5.9	10.8	11.5
PAT Margin (%)	7.1	4.4	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
Return Ratios (%)				
RoE	22.5	12.4	24.2	24.8
RoCE	28.7	16.5	32.4	33.2
RoIC	31.0	18.7	39.2	42.8
Valuation Ratios (x)				
P/E	92.4	154.7	63.8	51.3
EV / EBITDA	56.4	84.7	41.4	33.6
EV / Net Sales	6.6	6.9	5.1	4.3
Market Cap / Sales	6.6	6.9	5.1	4.4
Price to Book Value	20.8	19.2	15.4	12.7
Solvency Ratios				
Debt/EBITDA	0.3	0.2	0.0	0.0
Debt / Equity	0.1	0.1	0.0	0.0
Current Ratio	2.1	2.2	2.2	2.3
Quick Ratio	0.5	0.6	0.7	0.8

Source: Company, ICICI Direct Research

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