



## 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

Reco/View	Change
Reco: Buy	↔
CMP: Rs. 2,494	
Price Target: Rs. 2,790	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

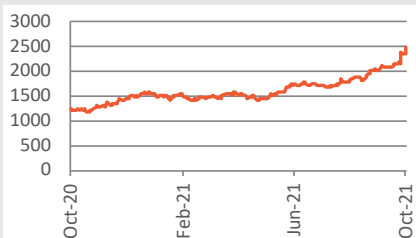
## Company details

Market cap:	Rs. 2,21,414 cr
52-week high/low:	Rs. 2507/1154
NSE volume: (No of shares)	15.4 lakh
BSE code:	500114
NSE code:	TITAN
Free float: (No of shares)	41.8 cr

## Shareholding (%)

Promoters	52.9
FII	19.0
DII	9.9
Others	18.2

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	22.8	45.0	62.9	98.4
Relative to Sensex	19.2	29.9	37.0	50.0

Sharekhan Research, Bloomberg

## Summary

- We maintain our Buy recommendation on Titan Company (Titan) with a revised PT of Rs. 2,790. Titan will be the key beneficiary of pent-up demand and consumer shifting to branded products in the near term.
- Q2FY2022 business update provides a glimpse of strong recovery in demand across key businesses with overall operational days at 90% of pre-COVID levels during the quarter.
- Jewellery business revenue grew by 78% y-o-y (~40% on two-year CAGR basis), led by drivers such as occasional buying, wedding demand, and higher investment in gold. Watches and eyewear business grew by 73% and 74%, y-o-y respectively.
- Overall revenue is expected to grow by 73% y-o-y on a consolidated basis in Q2FY2022. With strong recovery in revenue, margins are expected to increase by 335 bps to 10.2%.

Titan Company (Titan) witnessed strong recovery in demand in Q2FY2022 across key businesses with sales improving above or close to pre-pandemic levels after Q1FY2022 was affected by the second wave of Covid-19. Revenue of the jewellery business grew by 78% y-o-y (~40% on two-year CAGR basis), led by drivers such as occasional buying, wedding demand, and higher investment in gold. Watches and eyewear followed the jewellery business with 70%+ revenue growth, led by increased footfalls. The ongoing festive season and postponement of weddings will provide further boost to jewellery sales in Q3FY2022. This will also push profitability and would further improve cash flows in the coming years. Strong revenue growth registered in Q2FY2022 was well above our as well as street expectation, resulting in upward revision in earnings estimates for FY2022/FY2023/FY2024.

- Jewellery business registered strong growth of 78% y-o-y on a good base:** Titan's jewellery business registered strong growth of 78% y-o-y on a good base of 9% growth in Q2FY2021. On two-year CAGR basis, revenue grew by 40% during the quarter. Demand postponement due to the second wave, occasional buying, and higher investment in gold led to strong revenue growth during the quarter. We expect the momentum to continue with higher sales during the ongoing festive season and deferment of the wedding season in H2FY2022. Titan's Tanishq and other key brands are 100% compliant to Hallmarking, which will lead faster share gains.
- Watches and eyewear businesses are back to pre-COVID levels:** Revenue of the watches and wearables business grew by 73% y-o-y (reached 96% of Q2FY2020 sales) in Q2FY2022. Strong growth was driven by sales acceleration across all brands. Strong traction on the e-commerce platform and improving footfalls in malls aided in strong recovery in the watches segment. On the other hand, the eyewear business was led by strong growth across all segments.
- Balance sheet strength provides competitive edge:** The company has a strong cash kitty of over Rs. 2,000 crore. Strong working capital management, improved gold hedging policy, and expected improvement in profitability will help in improving cash flows (to cross Rs. 4,000 crore in FY2024) in the coming years. The company added 45 new stores in Q2FY2022 across businesses (jewellery – 13, watches – 8, and eyewear – 24). We expect the company to add another 12-13 stores in H2FY2022 with a large focus on expanding in Middle India. Strong store expansion and product portfolio offer a competitive edge over small regional players.

## Our Call

**View: Retain Buy with a revised PT of Rs. 2,790:** On account of its strong sales performance, we expect Titan to deliver robust performance in Q2FY2022 with revenue and operating profit growing by 73% and 157%, respectively, during the quarter. We expect the trend to continue in the coming quarters with higher demand across businesses during the ongoing festive season. We have revised upwards our earnings estimates for FY022/FY2023/FY2024 to factor in better-than-expected growth in the jewellery and other businesses. Titan is well poised to achieve strong revenue and PAT CAGR of 23% and 54%, respectively, over FY2021-FY2024. The stock is currently trading at 77x and 64x its FY2023E and FY2024E EPS (and EV/EBIDTA of 50.2x/41.9x its FY2023/FY2024E EBIDTA), respectively. We maintain our Buy recommendation on the stock with a revised PT of Rs. 2,790.

## Key Risks

Any disruption in the recovery of the jewellery business due to spike in COVID-19 cases followed by frequent lockdowns would act as a key risk to earnings estimates.

## Valuations (Consolidated)

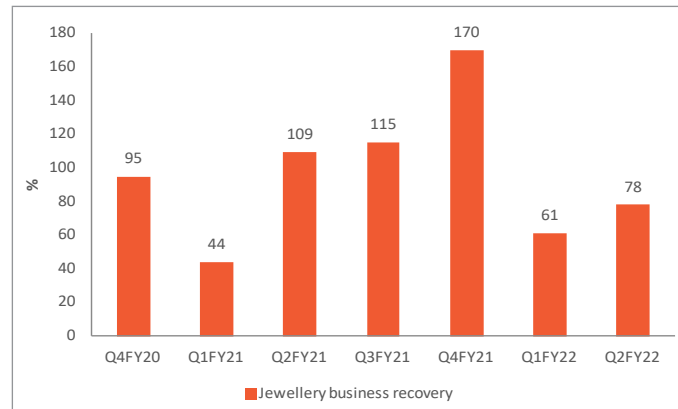
Particulars	FY21	FY22E	FY23E	FY24E
Revenue	21,644	29,746	34,496	40,105
OPM (%)	8.0	11.4	12.8	13.1
Adjusted PAT	984	2,137	2,892	3,487
% Y-o-Y growth	-35.2	117.2	35.3	20.6
Adjusted EPS (Rs.)	11.0	24.1	32.6	39.3
P/E (x)	227.4	103.7	76.6	63.5
P/B (x)	29.5	24.3	19.3	15.3
EV/EBIDTA (x)	129.1	65.9	50.1	41.8
RoNW (%)	13.8	25.7	28.1	26.9
RoCE (%)	17.2	32.3	37.0	37.1

Source: Company; Sharekhan estimates

### Jewellery business registered strong growth of 78% y-o-y on a good base

Titan's jewellery business registered strong growth of 78% y-o-y on a good base of 9% growth in Q2FY2021. On a two-year CAGR basis, revenue grew by 40% during the quarter. Demand postponement by the second wave, occasional buying, and higher investment in gold led to strong revenue growth during the quarter. We expect the momentum to continue with higher sales during the ongoing festive season and deferment of the wedding season in H2FY2022. Titan's Tanishq and other key brands are 100% compliant to Hallmarking, which will lead to faster share gains. New store additions for the quarter stand at 13 for the jewellery business, taking the total number of jewellery stores to 414.

Trend in Titan's jewellery business' recovery

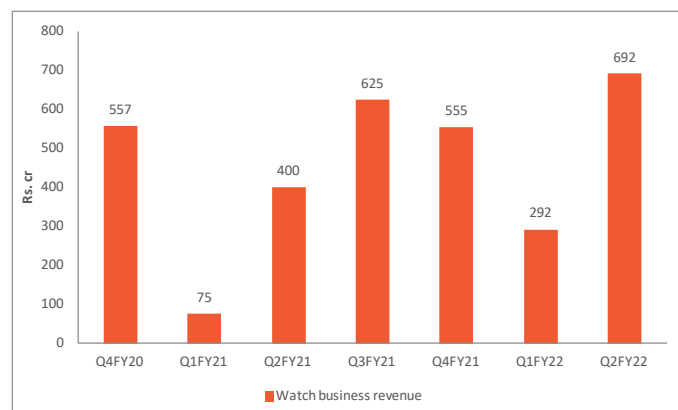


Source: Company; Sharekhan Research

### Opening up of malls drove growth for watches and wearables

The segment recovered rapidly in Q2, registering revenue growth of 73% y-o-y, led by strong growth across all product brands. Growth in e-commerce sales gave further boost to the segment's growth. Walk-ins continued to slowly improve with malls at 65% and LFS at 70% of pre-pandemic levels, respectively. Tier-2 cities reported better recovery in walk-ins compared to metros. Revenue has reached close to 95% of pre-COVID levels. New brand and collection launches in Q2 will help to improve revenue in the coming quarters. For watches, Titan launched collections under 'Titan Solidarity', 'Titan Athleisure', 'Raga Silver', 'Raga Chic' and 'Purple pastels' – catering to different lifestyle segments. Sonata brand added 'Epic' fashion watches, 'Gold Edit' – gold plated watches, and 'Cassata' – a youthful range to its product basket. In the hearables category, Titan launched smart devices in Reflex 3.0 series. Fastrack's launch of 'Fastrack X Coke' and 'Streetwear' collection was accompanied by the brand's foray into the fast-growing smart hearables category comprising mid-premium range of neckbands and plans to expand it to headphones and buds segments. Titan added eight new stores of watches and wearables, taking the total store count to 789.

Trend in revenues of Watches business

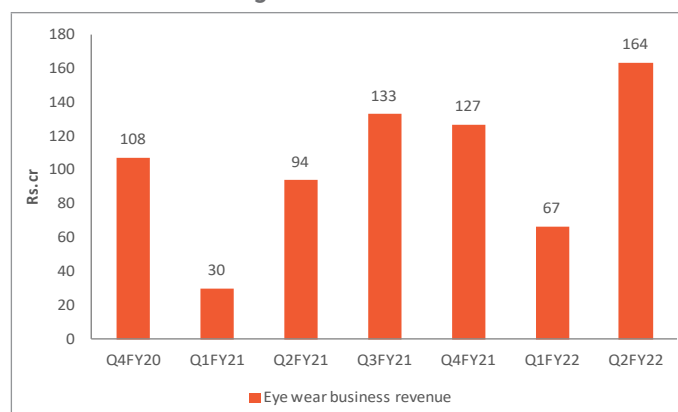


Source: Company; Sharekhan Research

## Eyewear witnessed strong growth due to e-commerce push

The eyewear segment reported 74% y-o-y growth, backed by the e-commerce channel with the launch of Titan Eyeplus' App. All segments registered healthy growth during the quarter. Various new products were launched at attractive price points with exclusive SKUs for e-commerce. 24 new stores were opened during the quarter for the eyewear business; total eyewear stores at quarter end stand at 629.

Trend in revenues of Eye wear business



Source: Company; Sharekhan Research

## Subsidiary performance

- ♦ **Titan Engineering and Automation (TEAL):** Revenue decreased by 43% y-o-y, impacted by delay in execution and shipments, primarily caused by semiconductor shortages, logistics, and travel restrictions. Restrictions are expected to ease in H2FY2022, which will give a boost to the subsidiary's revenue. Prospects of Automation Solutions Business and Aerospace and Defence business are better than last year, led by healthy new enquiries.
- ♦ **CaratLane (72.3% owned):** Business revenue grew by 95% y-o-y, aided by strong consumer demand. Omni-channel framework providing versatile options to customers, such as buy online, try-at-home etc., was suitably aided by new merchandises and marketing initiatives. CaratLane added two new stores during the quarter, taking the total number of stores to 123.

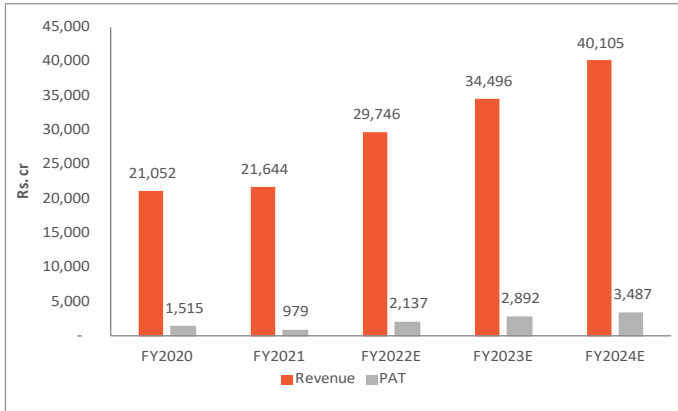
Revenue growth and store additions across segments and businesses

Segment/ Subsidiary	Revenue y-o-y growth	New store additions	Total stores at quarter end
Jewellery	78%	13	414
Watches & wearables	73%	8	789
Eye wear	74%	24	629
Other businesses	121%	0	14
Subsidiary: TEAL	-43%	-	-
Subsidiary: CaratLane	95%	2	123

Source: Company; Sharekhan Research

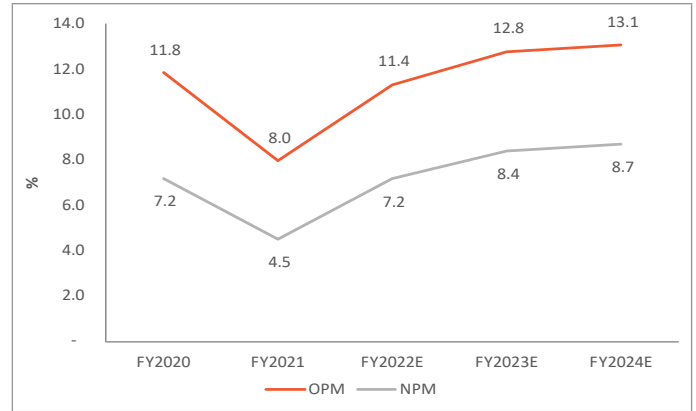
**Financials in charts**

**Stable increase in revenue and PAT**



SOURCE: COMPANY; SHAREKHAN RESEARCH

**Margins to improve significantly**



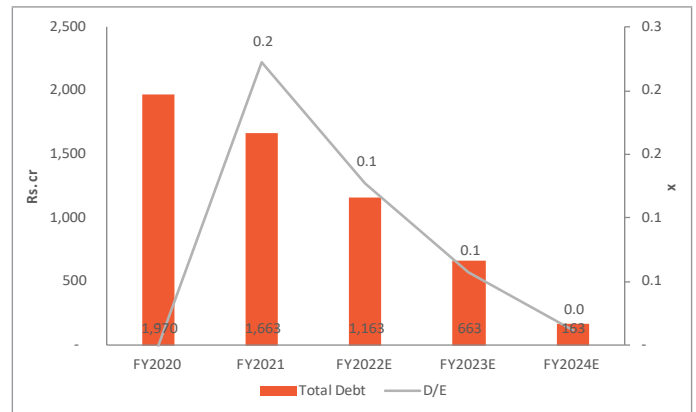
SOURCE: COMPANY; SHAREKHAN RESEARCH

**Return ratios to rise sharply**



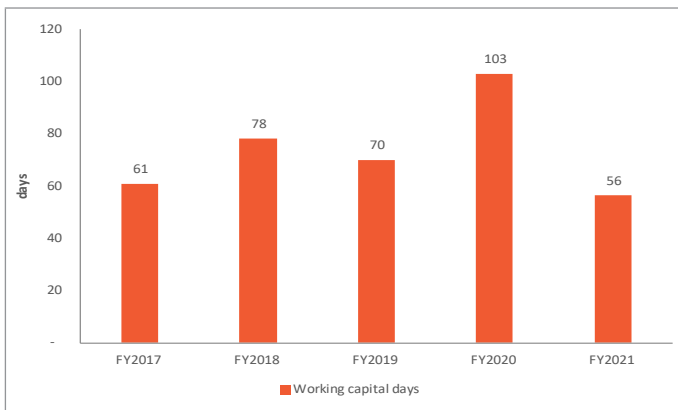
SOURCE: COMPANY; SHAREKHAN RESEARCH

**Debt levels to reduce**



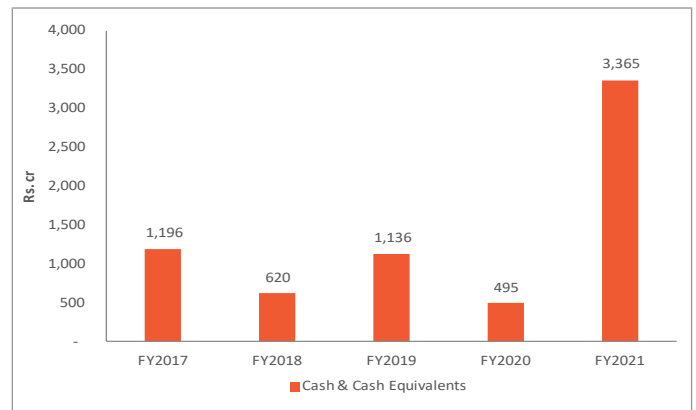
SOURCE: COMPANY; SHAREKHAN RESEARCH

**Working capital days to remain stable at current level**



SOURCE: COMPANY; SHAREKHAN RESEARCH

**Trend of cash and cash equivalents on books**



SOURCE: COMPANY; SHAREKHAN RESEARCH

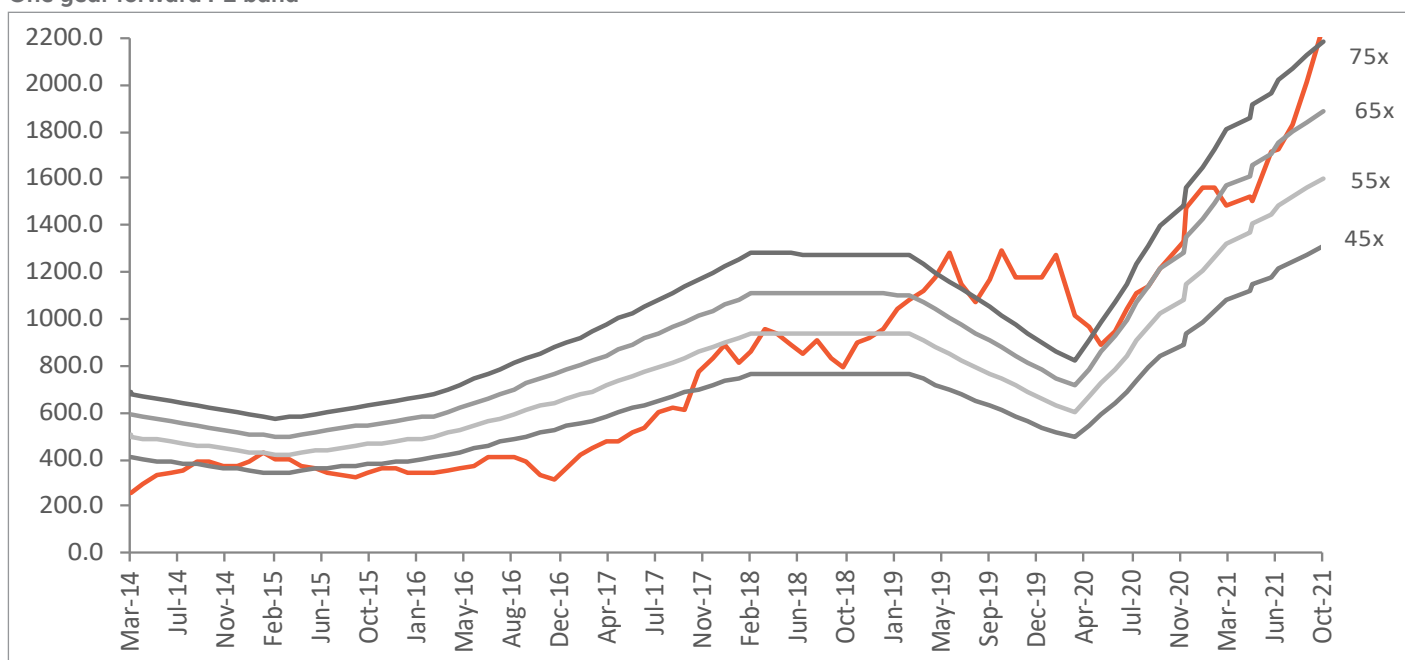
## Outlook and Valuation

■ **Sector outlook – Recovery to be faster from Q2/Q3; Long-term growth prospects intact:** The second wave of COVID-19 will impact Q1FY2022 performance of retail companies due to store/mall closure in most states. However, with reduction in cases and easing of lockdown norms, companies have witnessed faster recovery with increased footfalls and higher ticket-size spends. The upcoming festive season, a delayed wedding season, and a satisfactory vaccination drive would further boost performance in the coming quarters (especially in H2FY2022). Efficiencies at store level, stringent cost control, and negotiation with land lords would help the operational cost to remain under control. We believe changing aspirations, higher sales through the e-commerce platform, and expansion in retail footprints in tier 3 and 4 towns would help keep the long-term structural story of the retail industry in India intact.

■ **Company outlook – Strong recovery across business in Q2 bodes well for earnings prospects:** Titan started FY2022 on a strong note with sustenance of robust demand in April 2021. However, the second wave had an impact on the company's performance in May 2021. The company registered strong recovery in demand across all business verticals in Q2FY2022. The strong recovery in demand will also lead to sequential and y-o-y improvement in profitability. We expect the momentum to continue during the festive season. Higher demand for wedding jewellery due to a delayed wedding season, market share from small jewellers, and adding more stores in tier-2 and tier-3 towns would help the jewellery business to achieve double-digit growth in the medium to long term. Strong recovery in revenue of all business verticals would help profitability to improve in the coming years..

■ **Valuation – Retain Buy with a revised PT of Rs. 2,790:** On account of its strong sales performance, we expect Titan to deliver robust performance in Q2FY2022 with revenue and operating profit growing by 73% and 157% during the quarter, respectively. We expect the trend to continue in the coming quarters with higher demand across businesses during the ongoing festive season. We have revised upwards our earnings estimates for FY022/FY2023/FY2024 to factor in better-than-expected growth in the jewellery and other businesses. Titan is well poised to achieve strong revenue and PAT CAGR of 23% and 54%, respectively, over FY2021-FY2024. The stock is currently trading at 77x and 64x its FY2023E and FY2024E EPS (and EV/EBIDTA of 50.2x/41.9x its FY2023/FY2024E EBIDTA). We maintain our recommendation on the stock with a revised PT of Rs. 2,790.

### One year forward PE band



Source: Sharekhan Research

### Peer Comparison

Particulars	EV/EBIDTA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Trent	102.8	60.3	42.0	3.3	9.6	12.4
Titan Company	129.1	65.9	50.1	17.2	32.3	37.0

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 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.

## Key Risks

- ♦ **Rise in 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
Ashok Kumar Sonthalia	Chief Financial Officer
Dinesh Shetty	Company Secretary

Source: Company

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corporation of India	3.96
2	Rakesh Jhunjhunwala	3.72
3	BlackRock Inc.	1.65
4	Vanguard Group Inc.	1.43
5	SBI Funds Management Pvt. Ltd.	1.25
6	Rekha Rakesh Jhunjhunwala	1.09
7	ICICI Prudential Asset Management Co. Ltd.	1.08
8	Matthews International Capital Management	0.76
9	UTI Asset Management Company	0.70
10	Sands Capital Management	0.67

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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