



**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	■	↔	■

**ESG Disclosure Score** NEW

<b>ESG RISK RATING</b>	<b>15.04</b>			
Updated Nov 08, 2021				
<b>Low Risk</b>				
NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

**Company details**

Market cap:	Rs. 2,30,469 cr
52-week high/low:	Rs. 2,678 / 1,396
NSE volume: (No of shares)	14.0 lakh
BSE code:	500114
NSE code:	TITAN
Free float: (No of shares)	41.8 cr

**Shareholding (%)**

Promoters	52.9
FII	19.7
DII	10.1
Others	17.3

**Price chart**



**Price performance**

(%)	1m	3m	6m	12m
Absolute	9.0	10.1	50.4	65.1
Relative to Sensex	5.6	10.8	37.0	41.3

Sharekhan Research, Bloomberg

**Titan Company Ltd**

**Q3 to ride on strong festive demand**

**Consumer Discretionary**

Sharekhan code: **TITAN**

Reco/View: **Buy**

CMP: **Rs. 2,596**

Price Target: **Rs. 2,900**

↑ Upgrade ↔ Maintain ↓ Downgrade

**Summary**

- Titan witnessed strong demand across its consumer businesses, with standalone revenue growth of 36% y-o-y in Q3FY2022. Revenues grew by 18% on two year CAGR basis. We expect OPM to be higher by 150 bps due to better operating leverage.
- Jewellery business revenues grew by 37% y-o-y (29% CAGR over two years) led by strong festive and wedding season demand. Watches and Eyewear businesses crossed pre-COVID sales.
- Emergence of third wave of pandemic might be a risk to near-term performance and we await for greater clarity on the same in post-result management commentary. Hence, we maintain our earnings estimates and would review it after results are announced.
- Titan remains one of top picks in discretionary space. It trades at 80.9x/65.4x its FY2023/24E earnings. We maintain a Buy recommendation on the stock with a PT of Rs. 2900.

Titan Company released a pre-quarter update to give an overview of Q3FY2022 performance. Demand was robust across consumer businesses, growing by 36% (at standalone level) as compared to the festive quarter last year. Core jewellery business grew by 37% y-o-y (29% CAGR over two years), while watches and eyewear segment grew by 28% and 30% respectively. Key subsidiary such as Caratlane registered a strong growth of 64% during Q3FY22. With strong operating leverage, OPM is expected to expand by 150 bps on y-o-y basis to 12.6%. Overall the company is expected to post strong performance in Q3. However, emergence of third wave of COVID-19 would act as a key risk to the near term performance affected by any lockdown imposed by various states and postponement of wedding season.

- **Jewellery division – strong performance:** Revenues grew by 37% y-o-y led by buoyancy in festive purchases during the month of October and November. Two years CAGR growth stood at 29%. Both walk-ins and customer conversions were significantly higher compared to last year. Ticket size grew by ~15% higher compared to pre-pandemic levels. Studded jewellery contribution improved in Q3 with segment revenues growing in double digits. On the store expansion front Tanishq added 14 stores including two in Dubai at prime locations – at the Dubai Mall and Al Barsha.
- **Watches & eyewear cross pre-COVID sales:** Revenues of watches division grew by 28% y-o-y with multi-brand channels (both online & offline) growing handsomely in the quarter. The premiumisation journey is helping Titan gain market share and boost realisations. Sales from trade and large-format stores (LFS) clocked higher growth followed by retail. Revenues of eyewear division grew by 27% in Q3FY2022. Strong growth was driven by sunglasses and frames with good demand uptick also seen in international brands.
- **Q3 will be operationally strong quarter:** With all divisions clocking strong revenue performance, Titan is likely to post strong 36% growth in consolidated revenues in Q3FY2022. The company added 95 stores during the quarters. Its two key subsidiaries – Caratlane registered a strong revenue growth of 64% while Titan Engineering & Automation (TEAL) registered a decline by 9% on y-o-y basis (sequentially saw good improvement). Lower gold prices, better mix in jewellery division and strong recovery in the other divisions would help gross margins to remain high y-o-y. We expect Titan's consolidated OPM to be higher by 150 bps y-o-y to 12.6% in Q3FY22. Thus, overall operating profit is expected to grow by 34% on y-o-y basis in Q3FY22.

**Our Call**

**Valuation – Maintain Buy with unchanged PT of Rs. 2,900:** Titan is likely to post strong all round performance in Q3FY2022 with strong festive/wedding demand witnessed in core jewellery division while watches/eyewear division crossed pre-pandemic sales during the quarter. However, emergence of third wave of COVID-19 would be a key risk to near-term performance. More clarity on same would emerge in post result management commentary. Hence, we maintain earnings estimates and would review it once Q3 results are announced. Titan is well-poised to achieve strong revenue and PAT CAGR of 22% and 54%, respectively, over FY2021-FY2024. The stock is currently trading at 80.9x and 65.4x its FY2023E and FY2024E EPS, respectively (EV/EBIDTA of 52.8x/43.1x its FY2023/FY2024E EBIDTA). We maintain our recommendation on the stock with an unchanged PT of Rs. 2,900.

**Key Risks**

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

**Valuations (consolidated)**

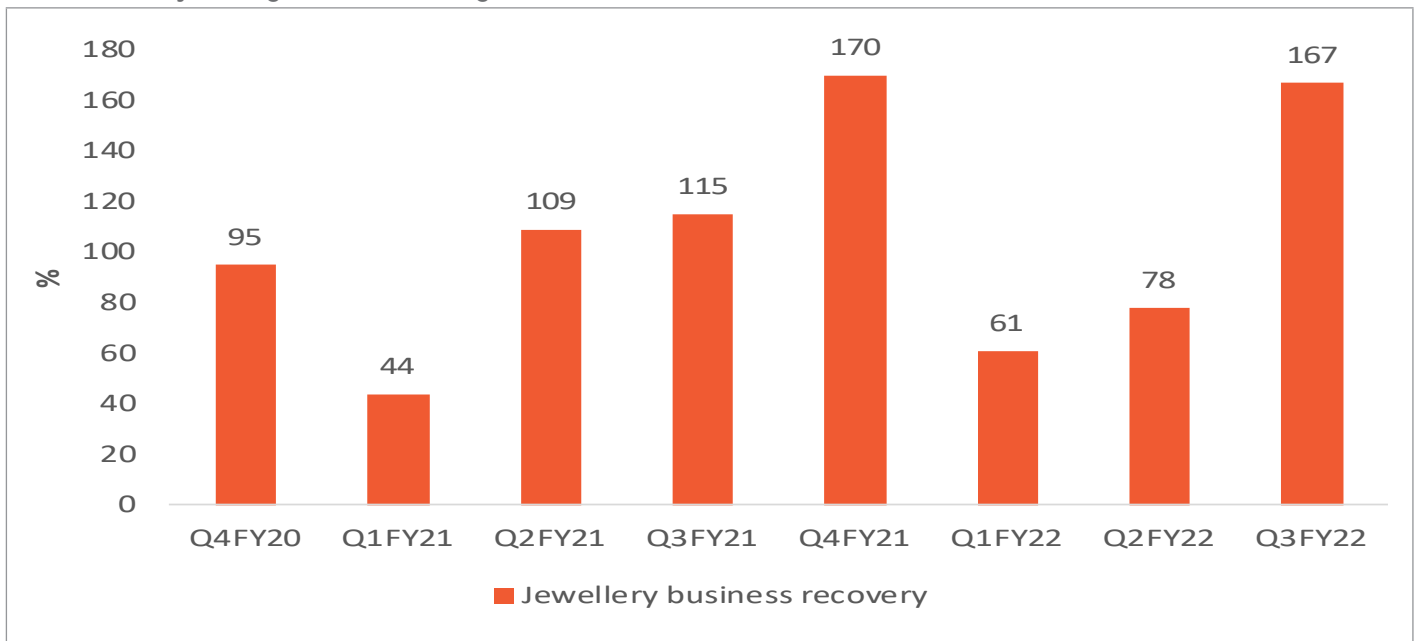
Particulars	Rs cr			
	FY2021	FY2022E	FY2023E	FY2024E
Revenue	21,644	29,235	34,041	39,573
OPM (%)	8.0	11.4	12.8	13.4
Adjusted PAT	984	2,094	2,849	3,524
% Y-o-Y growth	-35.2	112.8	36.1	23.7
Adjusted EPS (Rs.)	11.0	23.6	32.1	39.7
P/E (x)	-	-	80.9	65.4
P/B (x)	30.8	25.4	20.2	16.0
EV/EBIDTA (x)	-	69.7	52.8	43.1
RoNW (%)	13.8	25.3	27.8	27.3
RoCE (%)	17.2	31.8	36.7	37.6

Source: Company; Sharekhan estimates

## Growth momentum continued in Jewellery business

Titan's jewellery business registered a strong growth of 37% y-o-y on a high base of 22% growth in Q3FY2021. Two year CAGR growth stood at 29%. Buoyancy in jewellery demand driven by festive purchases in October and November helped the division achieve significant revenue uplift for the quarter. On a y-o-y basis, both walk-ins and customer conversions were significantly higher. New buyer growth was higher than total buyer growth driven partly by Tanishq's regionalization strategy of winning in focus markets. Ticket sizes were ~15% higher than pre-pandemic levels. The contribution from Tier-1 towns continued to improve and were close to pre-pandemic levels. Both plain and studded categories witnessed strong double digit growth. Studded share in the overall pie has slightly improved compared to same period last year. Tanishq's network expansion of 14 stores (net) includes 2 new stores in Dubai at prime locations of Dubai mall and Al Barsha. At the quarter end, Titan had a total of 428 jewellery stores.

### Trend in Titan's jewellery business' recovery

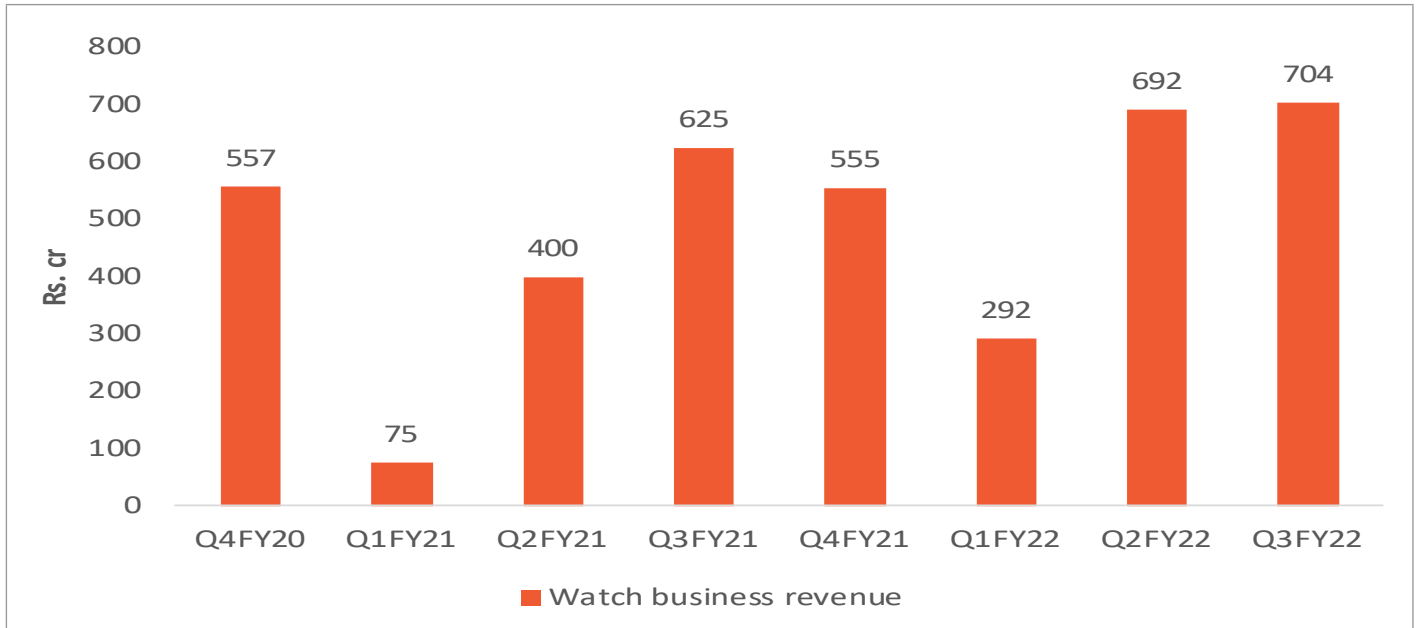


Source: Company; Sharekhan Research

## Strong recovery in watches and wearables segment

Watches & wearables segment registered revenue growth of 28% y-o-y during the quarter with multi-brand channels (both online & offline), growing handsomely in the quarter, mainly on the back of Titan brand. Premiumisation journey is helping to gain higher value. Sales from trade and large-format stores (LFS) in particular clocked higher growth followed by Retail. Tier 2 and Tier 3 towns did better than metros. Titan Smart watch, launched in end December, is Alexa enabled apart from heart rate, sleep & stress monitors, V02 measurement, period tracker, seeing extremely good response from customers. 'Titan Maritime II' and 'Raga Love Alf were Titan's new launches during the quarter. A high impact television ad campaign in October with a fresh and young take on Titan Mechanicals saw 2.5X jump in their sales. Fastrack unveiled its new brand proposition for Gen Z - 'You Do You' through a series of TV campaigns and social media conversations. Sonata launched its marquee collection 'Unveil, skeletal quartz designs for both men and women, during the quarter. Titan added 20 new stores (net) of watches and wearables, taking the total store count to 809.

**Trend in revenue of the watches business**

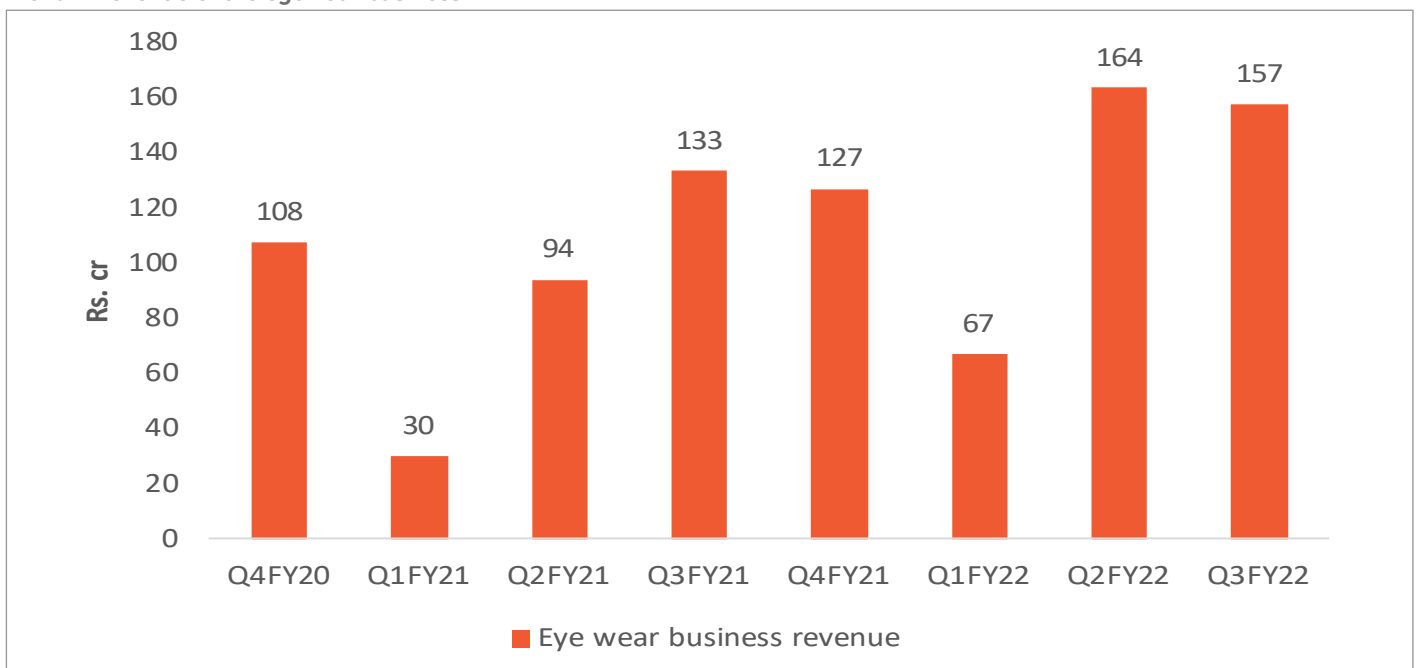


Source: Company; Sharekhan Research

**Eyewear witnessed strong growth on the back of significant network expansion**

The eyewear segment reported 27% y-o-y growth, backed by significant network expansion with 53 stores (net) added during the quarter, taking the total eye wear store count to 682 at quarter end. The segment’s growth was also driven by sunglasses and frames with good demand uptick also seen in international brands. A unique visual solution in lenses for office professionals ‘OfficePro’ was launched covering distinct work profiles of meetings, laptop and desktop with salient features of accurate power for specific working distance, improved intermediate and near fields, and peripheral vision with no distortion. ‘Crest Bold’, ‘all acetate’ material eyeglasses under Titan Crest brand were launched in the quarter.

**Trend in revenue of the eyewear business**



Source: Company; Sharekhan Research

## Subsidiary performance

- ◆ **Titan Engineering and Automation (TEAL):** Revenue fell by 9% y-o-y. The automation solutions business has seen a significant y-o-y improvement and is showing encouraging signs in the market with new orders coming in from different industry verticals with exports showing similar traction. The aerospace business though continuing to face challenges is showing initial signs of recovery.
- ◆ **CaratLane (72.3% owned):** Business revenue grew by 64% y-o-y, aided by strong omni-channel offerings. Studded share as part of the overall pie witnessed strong gains. Growth was well distributed with strong momentum witnessed even across lower ticket sizes. In December, the company opened its first-ever airport store at Bengaluru and also went live with CaratLane's US website. 'Dunes' collection launched during the quarter received good response. CaratLane added six new stores during the quarter, taking total number of stores to 129.

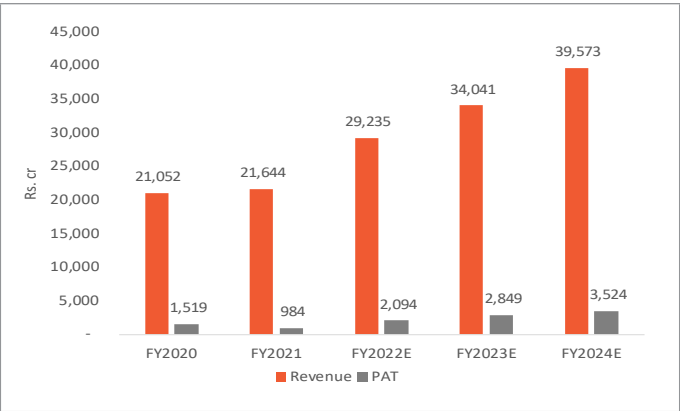
### Revenue growth and store additions across segments and businesses

Segment/Subsidiary	Revenue y-o-y growth	New store additions (net)	Total stores at quarter end
Jewellery	37%	14	428
Watches & wearables	28%	20	809
Eye wear	27%	53	682
Other businesses	44%	2	16
Subsidiary: TEAL	-9%	-	-
Subsidiary: CaratLane	64%	6	129

Source: Company; Sharekhan Research

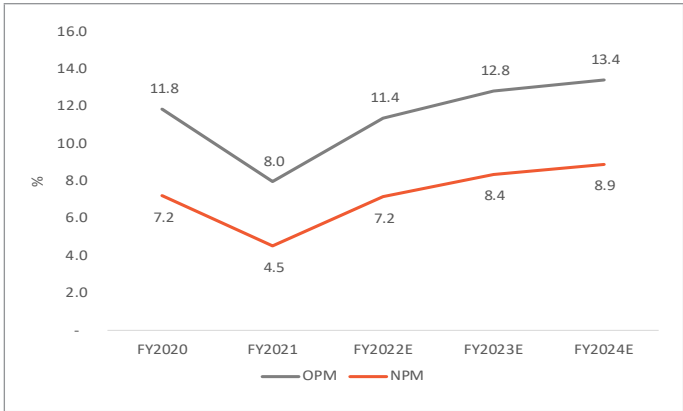
**Financials in charts**

**Stable increase in revenue and PAT**



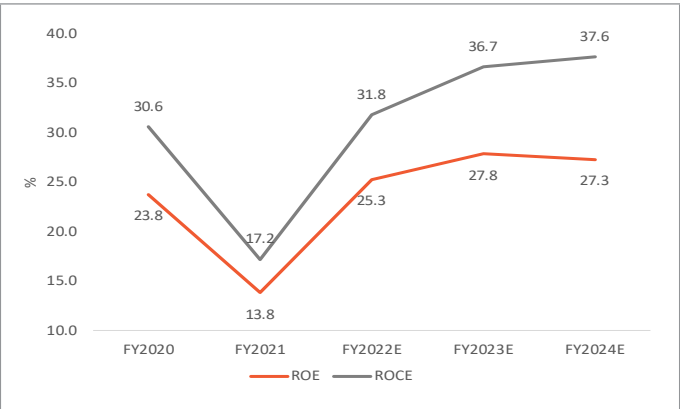
Source: Company, Sharekhan Research

**Margins to improve significantly**



Source: Company, Sharekhan Research

**Return ratios to rise sharply**



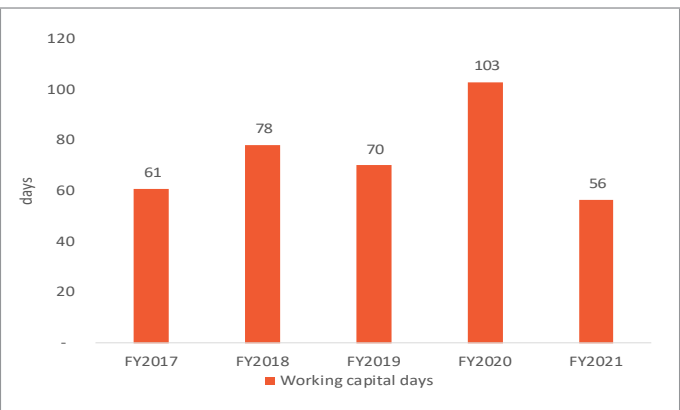
Source: Company, Sharekhan Research

**Debt levels to reduce**



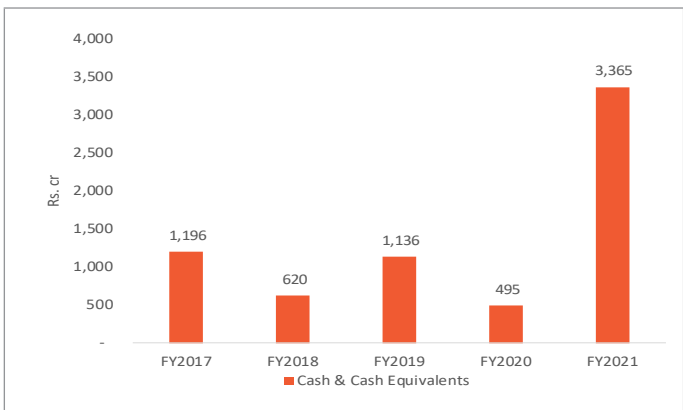
Source: Company, Sharekhan Research

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



Source: Company, Sharekhan Research

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



Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector outlook – Strong growth in Q3; Long-term growth prospects intact

Jewellery industry revenues grew by 29% and 6% in October,21 and November,21, respectively, driven by strong festive demand and postponement of wedding season. Similar trend continued in the month of December,21 due to improved footfalls and higher wedding demand. Overall jewellery industry is expected to post strong performance in Q3FY2022. Better operating leverage, efficiencies at store level, stringent cost control, and negotiation with land lords would help the companies to post strong profitability in Q3. Emergence of third wave will act as a key risk to the near term performance. We believe changing aspirations, higher sales through the e-commerce platform, shift to branded players and expansion in retail footprints in tier 3 and 4 towns would help keep the long-term structural story of the retail and jewellery industry in India intact.

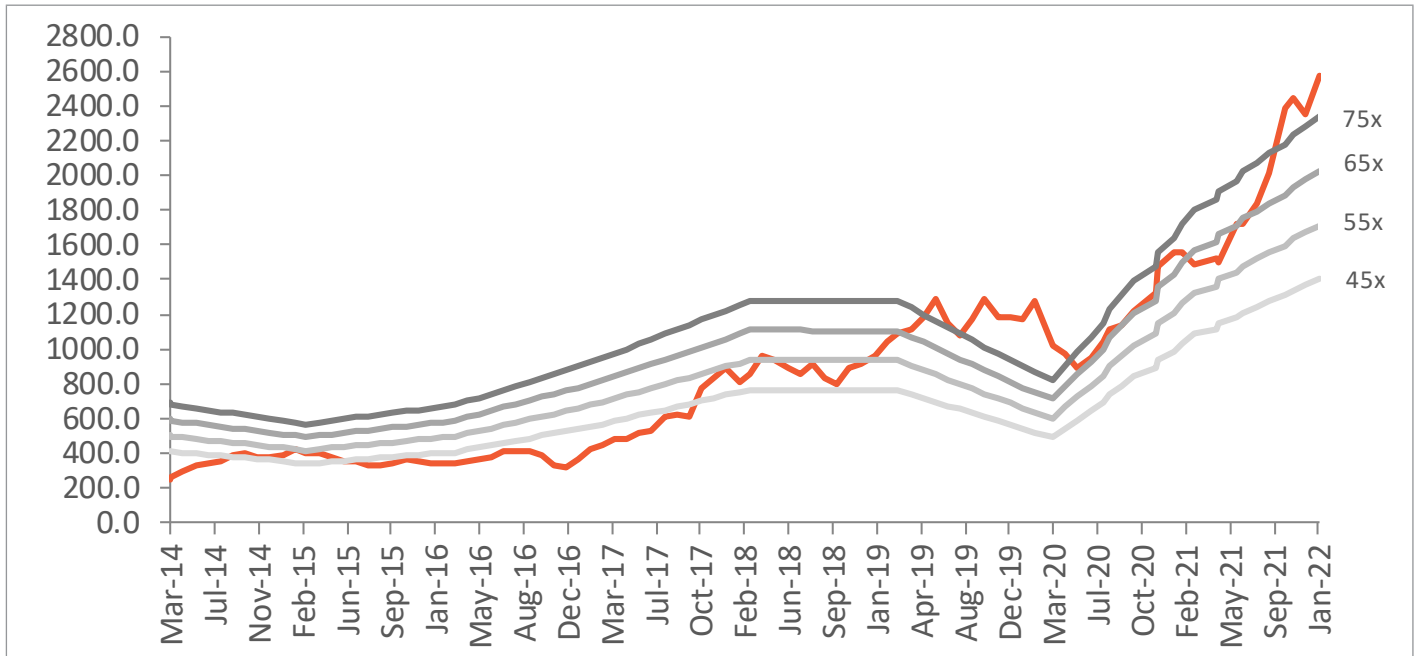
### ■ Company outlook – Strong recovery across business in Q2 bodes well for earnings prospects

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. The company registered strong recovery in demand across all business verticals in Q2FY2022. 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 an unchanged PT of Rs. 2,900

Titan is likely to post strong all round performance in Q3FY2022 with strong festive/wedding demand witnessed in core jewellery division while watches/eyewear division crossed pre-pandemic sales during the quarter. However, emergence of third wave of COVID-19 would be a key risk to near-term performance. More clarity on same would emerge in post result management commentary. Hence, we maintain earnings estimates and would review it once Q3 results are announced. Titan is well-poised to achieve strong revenue and PAT CAGR of 22% and 54%, respectively, over FY2021-FY2024. The stock is currently trading at 80.9x and 65.4x its FY2023E and FY2024E EPS, respectively (EV/EBIDTA of 52.8x/43.1x its FY2023/FY2024E EBIDTA). We maintain our recommendation on the stock with an unchanged PT of Rs. 2,900.

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



Source: Sharekhan Research

#### Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY21	FY22	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Trent	-	-	89.7	97.9	49.8	35.0	3.3	9.6	14.5
Titan Company	-	-	80.9	-	69.7	52.8	17.2	31.8	36.7

Source: Company, Sharekhan estimates

## 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, Titan Eyeplus, 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 Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corporation of India	4.0
2	Rakesh Jhunjhunwala	3.7
3	BlackRock Inc.	1.7
4	Vanguard Group Inc.	1.4
5	SBI Funds Management Pvt. Ltd.	1.3
6	Rekha Rakesh Jhunjhunwala	1.1
7	ICICI Prudential Asset Management Co. Ltd.	1.1
8	Matthews International Capital Management	0.8
9	UTI Asset Management Company	0.7
10	Sands Capital Management	0.7

Source: Bloomberg (old data)

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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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