Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Titan Company Ltd

Q4 will be a one-off quarter; eyeing strong growth in the quarters ahead

Consumer Discretionary	Sharekhan code: TITAN

Reco/View: Buy	↔	CMP: **Rs. 2,459**	Price Target: **Rs. 2,900**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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

ESG RISK RATING 15.04
Updated Jan 08, 2022

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

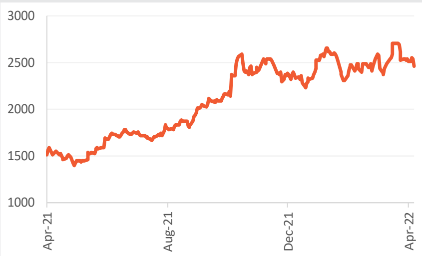
Company details

Market cap:	Rs. 2,18,302 cr
52-week high/low:	Rs. 2,768 / 1,401
NSE volume: (No of shares)	15.7 lakh
BSE code:	500114
NSE code:	TITAN
Free float: (No of shares)	41.8 cr

Shareholding (%)

Promoters	52.9
FII	19.2
DII	10.3
Others	17.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.7	-4.4	3.5	62.4
Relative to Sensex	-6.8	-3.2	4.6	43.5

Sharekhan Research, Bloomberg

Summary

- Titan's Q4FY2022 sales performance will be affected by multiple one-off factors such as 1) short-lived third wave impacting footfalls in January; 2) Higher gold prices leading to delayed purchases in fag end of quarter; and 3) bleak consumer sentiments in an uncertain environment.
- One-off factors along with high base of Q4FY2021 led to a 4% decline in jewellery sales in Q4FY2022. Watches and eyewear revenue grew by 12% and 5% y-o-y, respectively. We expect revenue to remain flat at the consolidated level (revenue declined by 3% on standalone level) in Q4.
- EBITDA margin to improve y-o-y due to better mix and expected to stand at 13-13.5% (200-250 bps expansion)., leading to PAT growth of 20%+ in Q4.
- Titan is optimistic about strong recovery in growth in Q1FY2023, supported by factors such as postponement of the wedding season and improved footfalls. We maintain Buy on the stock with a PT of Rs. 2,900.

Titan released a pre-quarter update to give an overview of Q4FY2022 performance. Demand was impacted by partial lockdowns caused by Omicron wave in January and again during the month of March in which consumer sentiments were affected adversely due to (a) a sharp increase and volatility in gold prices and (b) uncertainty due to a fragile geopolitical situation. At the standalone level, revenue declined by 3% y-o-y over a strong base of Q4FY2021. The core jewellery business declined by 4% y-o-y, while the watches and eyewear segment grew by 12% and 5% y-o-y, respectively. Key subsidiaries such as TEAL and CaratLane registered strong growth of 77% and 51% y-o-y, respectively, during Q4FY2022. Overall, we expect Titan's revenue to remain flat on a y-o-y basis, while better mix would lead to 200-250 bps y-o-y improvement in EBITDA margin to 13-13.5% in Q4. Q1FY2023 is expected to be normal after a gap of two years of lockdown in the same period, led by strong demand, network expansion, and campaigns organised by the company.

- **Jewellery division – Below par performance in a tough quarter:** Titan's jewellery business revenue declined by 4% y-o-y on a high base of Q4FY2021 (71% y-o-y growth in Q4FY2021). While walk-ins saw a minor decline in January 2022, customer conversions and ticket sizes grew marginally for the quarter on a y-o-y basis. Though the plain jewellery category bore the brunt of gold volatility in March 2022, leading to a slight decline for the quarter, studded sales reported high single-digit growth, thereby partially cushioning the impact. Store expansions (net) continued as per plan with commissioning of seven new stores in Tanishq, eight in Mia by Tanishq, and one in Zaya.
- **Watches and eyewear register decent performance:** Revenue of the watches and eyewear segment grew by 12% and 5% y-o-y, respectively. The watches division saw good growth momentum amidst a challenging external environment, with sales increasing across all offline channels due to Titan brand. Sales from retail and large format stores (LFS) reported higher growth, followed by trade. Store expansions (net) continued with 24 new stores in Titan World and 10 in Helios. The eyewear division's growth was led by frames and sunglasses. Network expansion continued in line with 51 net store additions during Q4FY2022 coupled with ambitious growth plans for the next year.
- **Better margins to drive double-digit PAT growth in Q4:** At a standalone level, Titan is likely to post revenue decline of 3% y-o-y in Q4FY2022, affected by lower y-o-y revenue in the jewellery business. At the consolidated level, revenue is expected to remain flat on a y-o-y basis with strong performance by key subsidiaries such as Caratlane revenue growing by 51% y-o-y and Titan Engineering & Automation Limited (TEAL) registered 77% y-o-y growth. The company added 105 stores during the quarter. Though revenue is expected to remain flat y-o-y, better revenue mix would enable Titan's EBITDA margin to improve by 200-250 bps y-o-y to 13.0-13.5% in Q4. This would lead to 20%+ growth in PAT in Q4.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 2,900: Q4FY2022 can be considered as a one-off quarter as the company's performance was affected by multiple factors, including the third wave of Covid-19 and global uncertainties coupled with very high base of Q4FY2021 (jewellery business grew by 71% y-o-y). Further, the company has given an optimistic outlook for Q1FY2023; performance is expected to be much better compared to the base quarter, which was impacted by the pandemic. Postponement of the wedding season and improved footfalls will add to Q1 sales. Titan remains one of our top picks in the discretionary space. Titan is well poised to achieve strong revenue and PAT CAGR of 26% and 54%, respectively, over FY2021-FY2024. The stock is currently trading at 74.1x and 59.8x its FY2023E and FY2024E EPS, respectively (EV/EBITDA of 48.8x/39.7x its FY2023/FY2024E EBITDA). We maintain our Buy recommendation on the stock with an unchanged price target (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.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	21,644	29,131	34,851	40,618
EBITDA Margin (%)	8.0	12.0	12.8	13.4
Adjusted PAT	984	2,257	2,946	3,649
% Y-o-Y growth	*-35.2*	*129.3*	*30.6*	*23.9*
Adjusted EPS (Rs.)	11.0	25.4	33.2	41.1
P/E (x)	-	96.7	74.1	59.8
P/B (x)	29.1	23.6	18.7	14.8
EV/EBITDA (x)	-	62.7	48.8	39.7
RoNW (%)	13.8	27.0	28.2	27.6
RoCE (%)	17.2	33.3	36.9	37.8

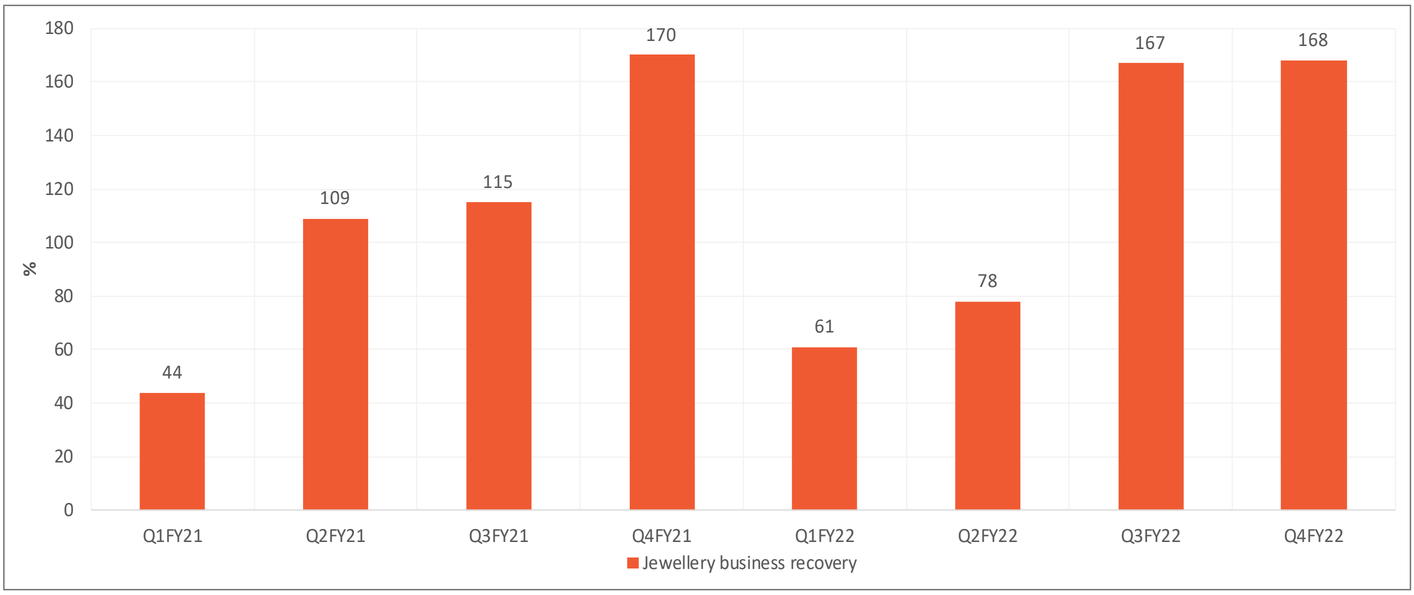
Source: Company; Sharekhan estimates

Volatile Q4 for the jewellery business

Revenue of Titan's jewellery business declined by 4% y-o-y on a high base of Q4FY2021. Jewellery business saw subdued activity in top cities due to the Omicron wave in January 2022, a very strong resurgence in February 2022, and again a drop in customer purchases in March 2022 due to sharp rise in gold prices and sentiment impact because of the external geopolitical conflict. While walk-ins saw a minor decline, customer conversions and ticket sizes grew marginally for the quarter on a y-o-y basis. Sales from the top eight cities grew in single digits, while the rest of India saw a small decline. Though the plain jewellery category bore the brunt of gold volatility in March 2022, leading to a slight decline for the quarter, studded sales reported high single-digit growth, thereby partially cushioning the impact.

Tanishq's *Rivaah* wedding jewellery collection 'Romance of Po/kl – a singular charm of uncut diamonds adding a new life to a bride's trousseau, was launched in March 2022 for the upcoming wedding season. *Mia* by Tanishq's new collections of '*The Cupid Edit*' and '*Kiss of Spring-2*' focused on events of Valentine's Day, Women's Day, and Mia's 10th anniversary. Zoya's marquee new collection '*Aetema*' – ensconcing two new patents on stone cuts and an ode to infinite feminine energy marrying ancient symbolism with modern aesthetics beautifully underscored the brand's design legacy. During the quarter, the company acquired a minority stake in Great Heights Inc. (through its wholly owned subsidiary TCL North America Inc.) to deepen its understanding of the 'Lab-grown Diamonds' space. Store expansions (net) continued as per plan with commissioning of seven new stores in Tanishq, eight in Mia by Tanishq, and one in Zaya. At the quarter end, Titan had a total of 444 jewellery stores.

Trend in Titan's jewellery business' recovery

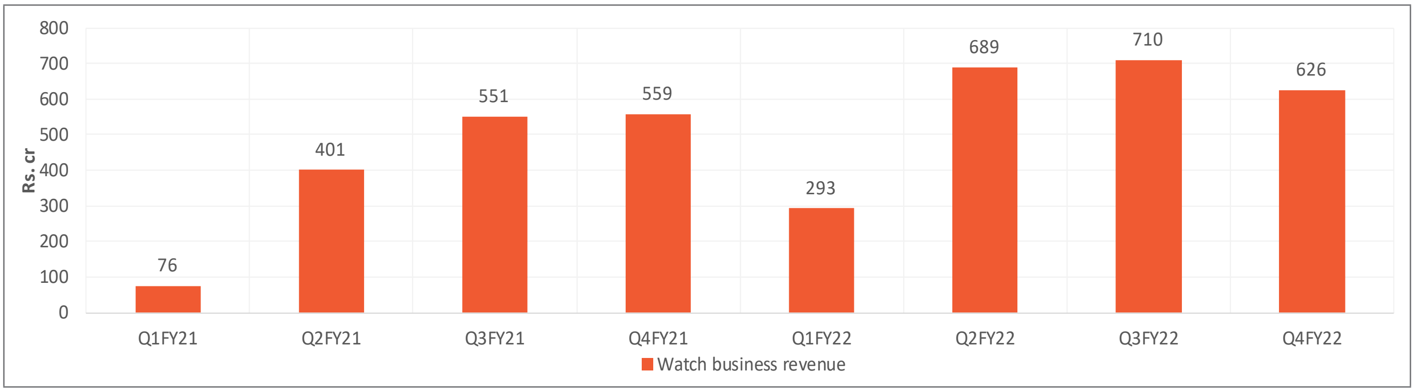


Source: Company; Sharekhan Research

Growth momentum continued in the watches and wearables segment

The watches and wearables segment registered 12% y-o-y revenue growth during the quarter amidst a challenging external environment with sales increasing across all offline channels because of Titan brand. Sales from retail and large format stores (LFS) reported higher growth followed by trade. Western and northern regions saw much higher growth among geographies. Titan's new analog collections of 'Octane Aerobatics' (eight mechanical variants), 'Ladies Edge' (six variants), and 'Unending Beauty' (11 variants); Fastrack's 'After Dark' (nine variants); and Sonata's new collections of 'Versatyle' (10 variants) and 'Women of Steel' (15 variants) were well received. The smart watches and hearables segment saw significant acceleration in the quarter with new launches across 'Titan Smart Pro' (six variants), 'Fastrack Reflex Vox' (four variants), and 'Reflex Tunes- FT3' (four variants) evoking lot of interest and excitement. Store expansion (net) continued with 24 new stores in Titan World and 10 in Helios. Over 44 Titan World stores were renovated to a new format to offer a wider choice of premium brands enhancing the overall customer experience.

Trend in revenue of the watches business

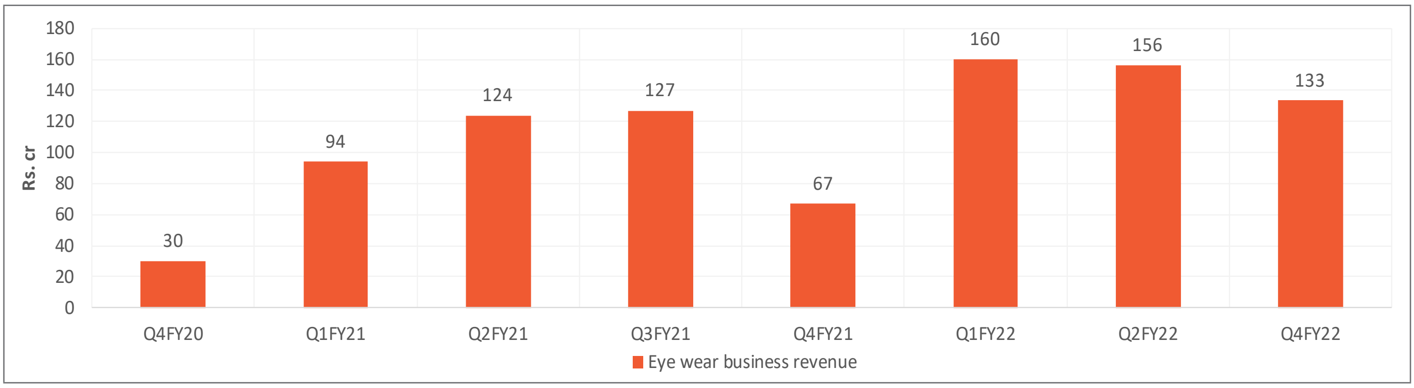


Source: Company; Sharekhan Research

Eyewear witnessed strong growth due to significant network expansion

The eyewear segment's revenue growth of 5% y-o-y, led by frames and sunglasses. Product innovation continues to be the core focus area and centre piece of Titan Eyeplus offerings. 'EyeX' - launched in January 2022 – a first of its kind smart wearable product has established the division as a pioneer in smart eyewear within a short span of time. Network expansion continued in line with 51 net store additions during Q4FY2022 coupled with ambitious growth plans for the next year.

Trend in revenue of the eyewear business



Source: Company; Sharekhan Research

Subsidiary performance

- **TEAL:** TEAL's revenue grew by 77% y-o-y in Q4. The automation solutions business saw large dispatches in the quarter triggered due to postponement of deliveries because of supply chain disruptions earlier. Enquiries have shown gradual improvement but are still below normalised levels. The aerospace business achieved moderate growth with good recovery in orders.
- **CaratLane (72.3% owned):** Revenue of the *CaratLane* business grew by 51% y-o-y led by strong digital first strategy. Sales in February 2022 nearly matched the highest monthly sales of November 2021 (of Dhanteras), driven by the highly successful Valentine Day's campaign of 'Love it or Hate it, #GiftACaratLane'. '*Harmony*', a new collection inspired by the design of sound waves, was well received by customers.

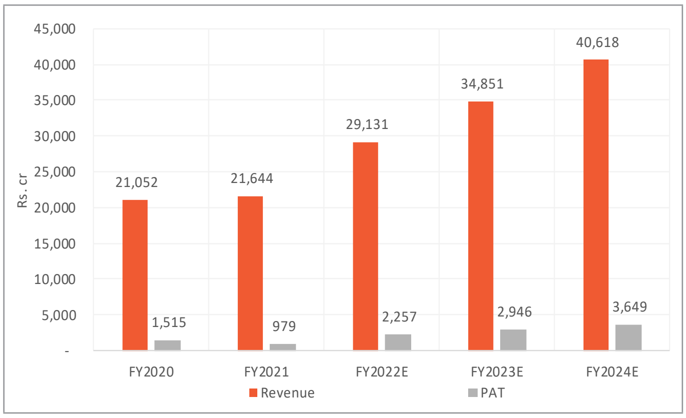
Revenue growth and store additions across segments and businesses

Segment/Subsidiary	Revenue y-o-y growth	New store additions (net)	Total stores at quarter end
Jewellery	-4%	16	444
Watches & wearables	12%	34	843
Eye wear	5%	51	733
Other businesses	23%	4	20
Subsidiary: TEAL	77%	-	-
Subsidiary: CaratLane	51%	9	138

Source: Company; Sharekhan Research

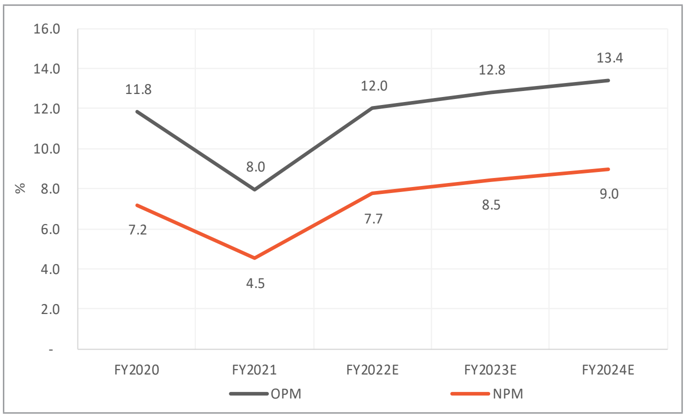
Financials in charts

Stable increase in revenue and PAT



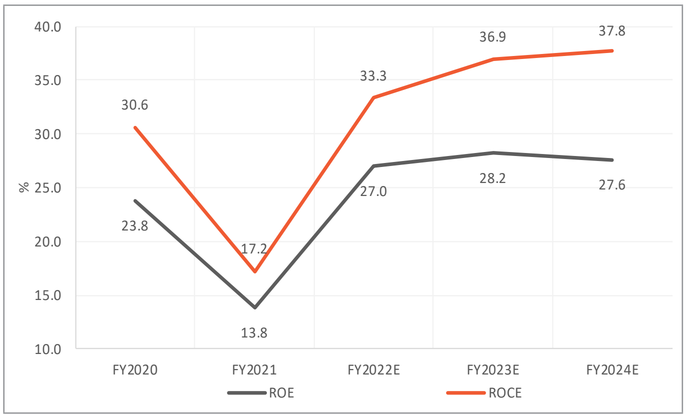
Source: Company, Sharekhan Research

Margins to improve significantly



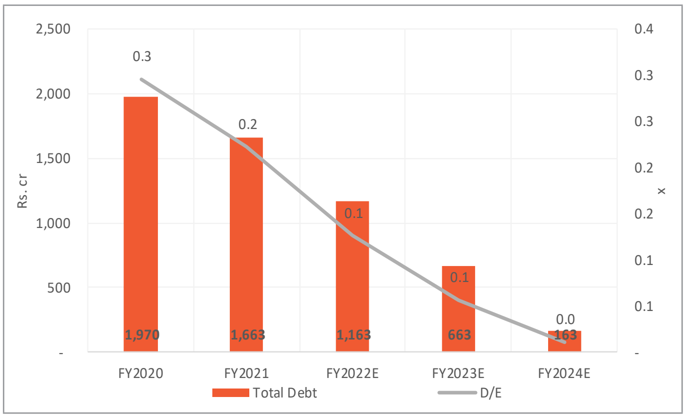
Source: Company, Sharekhan Research

Return ratios to rise sharply



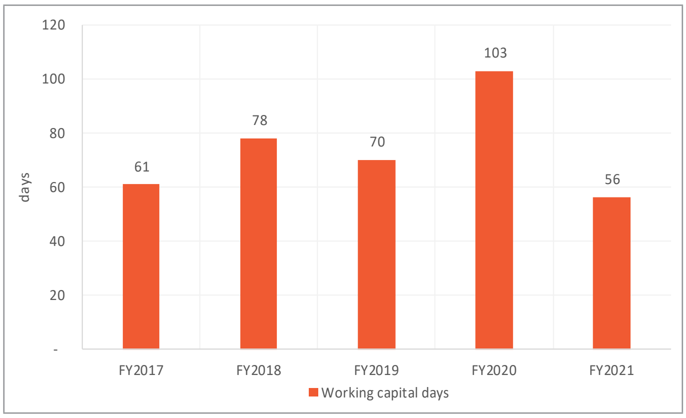
Source: Company, Sharekhan Research

Debt levels to reduce



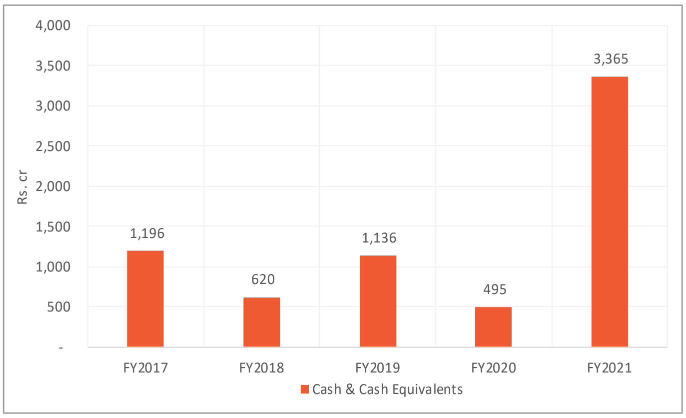
Source: Company, Sharekhan Research

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 – Medium-term growth prospects intact

Strong festive demand in October-November 2021, improved footfalls, higher ticket size, revenge buying, and stores operational for normal working hours (in most states) led to strong revenue performance for branded apparel companies in Q3FY2022. Branded apparel/retail companies crossed sales ahead of pre-COVID levels. Emergence of a third wave would act as a key risk to near-term performance. However, with reduction in cases and easing of lockdown norms, companies are expected to witness faster recovery coupled with increased footfalls and higher ticket-size spends. Efficiencies at store level, stringent cost control, and negotiation with land lords would help 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 tier-4 towns would help keep the long-term structural story of the retail industry in India intact.

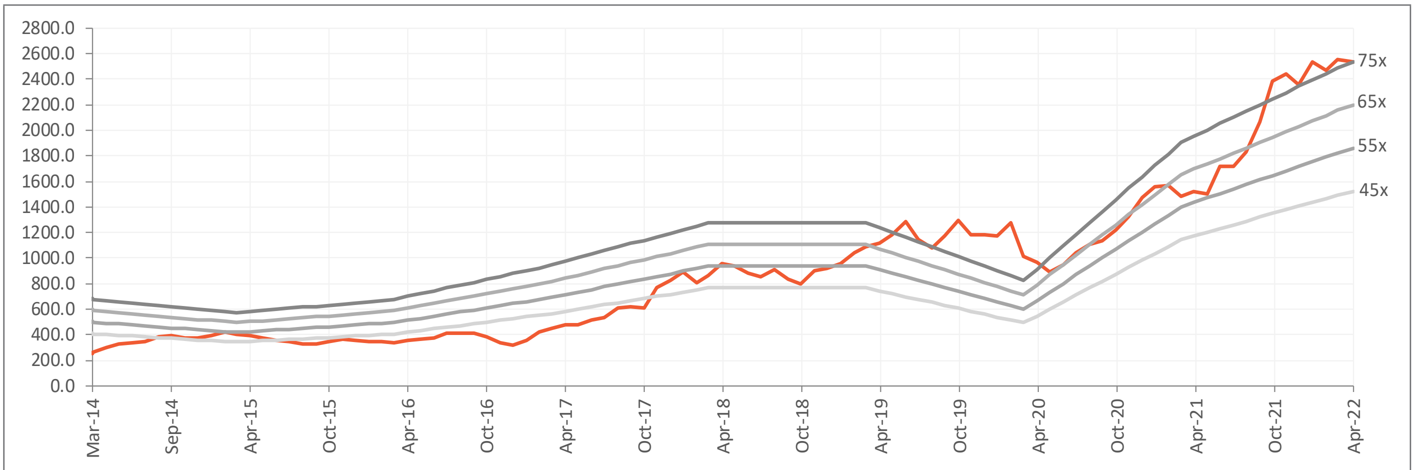
■ Company Outlook – Impact of the third wave to phase out soon; Growth momentum to sustain

Q2 and Q3 performance was led by strong festive demand and pent-up demand aiding the company to report strong revenue and profitability growth. Q4 performance was affected by multiple factors including Covid-19 third wave and global uncertainties. The company continues to gain market share in its jewellery business in some of the key markets. Higher demand for wedding jewellery due to a delayed wedding season, market share from small jewellers, and addition of 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 – Maintain Buy with an unchanged PT of Rs. 2,900

Q4FY2022 can be considered as a one-off quarter as the company's performance was affected by multiple factors, including the third wave of Covid-19 and global uncertainties coupled with very high base of Q4FY2021 (jewellery business grew by 71% y-o-y). Further, the company has given an optimistic outlook for Q1FY2023; performance is expected to be much better compared to the base quarter, which was impacted by the pandemic. Postponement of the wedding season and improved footfalls will add to Q1 sales. Titan remains one of our top picks in the discretionary space. Titan is well poised to achieve strong revenue and PAT CAGR of 26% and 54%, respectively, over FY2021-FY2024. The stock is currently trading at 74.1x and 59.8x its FY2023E and FY2024E EPS, respectively (EV/EBITDA of 48.8x/39.7x its FY2023/FY2024E EBITDA). We maintain our Buy 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/EBIDTA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Trent	-	-	89.6	-	57.1	38.1	3.3	9.6	16.4
Titan Company	-	96.7	74.1	-	62.7	48.8	17.2	33.3	36.9

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, 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 2,064 stores across India with retail area crossing 2.7 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	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 (Old data)

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 detoriating 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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