

## Margins disappoint; outlook remains upbeat

**About the stock:** Titan has transformed itself from a watch maker to an enviable lifestyle company, with jewellery being the leading vertical (85% of revenues). Robust distribution network comprises 2175+ stores spread across 2.8 mn sq ft.

- Titan has consistently displayed its ability to gain market share amid a tough industry scenario owing to its robust balance sheet (30%+ RoCE and cash & investments worth ₹ 1500+ crore) and strong brand patronage

**Q4FY22 results:** Titan's Q4FY22 earnings was below our/consensus estimates as significant increase in employee & other expenses impacted EBITDA for the quarter.

- As guided by management in its pre-quarterly update, jewellery division (excluding gold bullion sale) reported 4% revenue de-growth. During the quarter, it sold gold bullion worth ₹ 375 crore, which led jewellery revenues to increase 3% YoY to ₹ 6843 crore. Overall revenue grew 4% YoY to ₹ 7796 crore
- Higher employee and other expenses resulted in EBITDA margins declining by 70 bps YoY to 10.2%. EBITDA de-grew 3% YoY to ₹ 794 crore
- PAT de-grew 7% YoY to ₹ 528 crore, which was impacted by exceptional expenses like VRS and ex-gratia (₹ 136 crore)

**What should investors do?** Titan has been an exceptional performer in the discretionary space with stock price appreciating at ~36% CAGR in last five years.

- We continue to remain structurally positive on the stock as high growth visibility justifies premium valuations and maintain **BUY** on the stock

**Target Price and Valuation:** We value Titan at ₹ 2725 i.e. 66x FY24E EPS

**Key triggers for future price performance:**

- Robust balance sheet and asset light distribution model has enabled it to outpace peers in terms of store addition (to add 40+ Tanishq stores in FY23)
- Tanishq's penetration is still at a very nascent stage in the Indian jewellery market (< 10% market share). This provides immense opportunity for Titan to enhance its market share. Mandatory gold hallmarking would further enhance market share gains from unorganised space
- Thrust on wedding space is bearing fruit with wedding jewellery becoming a critical growth driver while its share in overall jewellery revenue has increased meaningfully
- Gradual recovery in studded ratio to aid gross margins, going forward
- We bake in revenue, earnings CAGR of 20%, 30%, respectively, in FY22-24E

**Alternate Stock Idea:** Besides Titan in our retail coverage, we also like Bata India.

- Bata has a strong b/s, diversified branded product portfolio and pan India network, which would enable sustained long term profitable growth
- BUY with target price of ₹ 2360/share



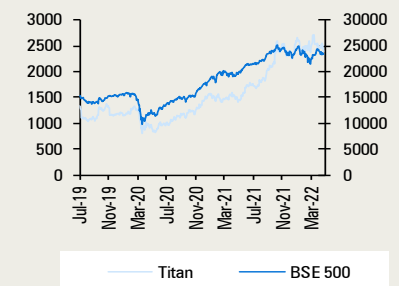
### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	2,03,303.0
Debt (FY22) (₹ Crore)	518.0
Cash & investments (FY21) (₹ Crore)	1,572.8
EV (₹ Crore)	2,02,248.2
52 week H/L	2767 / 1400
Equity Capital (₹ Crore)	88.8
Face Value (₹)	1

### Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	52.9	52.9	52.9	52.9	52.9
FII	18.1	18.4	19.1	18.6	18.4
DII	11.5	10.1	10.3	10.5	10.2
Others	17.5	18.6	17.8	18.1	18.5

### Price Chart



### Key risks

- (i) Re-imposition of lockdown restrictions can lower sales
- (ii) significant increase in gold prices can impact demand

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### Key Financial Summary

Financials	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	21,051.5	21,644.0	28,799.0	17.0	34,039.5	41,203.5	19.6
EBITDA	2,466.6	1,724.0	3,341.0	23.0	4,047.0	5,266.5	25.6
PAT	1,501.4	973.0	2,173.0	26.0	2,745.7	3,664.6	29.9
EPS (₹)	16.9	11.0	24.5		30.9	41.3	
P/E (x)	135.4	208.9	93.6		74.0	55.5	
EV/Sales (x)	9.7	9.2	7.0		5.9	4.9	
EV/EBITDA (x)	82.5	116.0	60.4		49.9	38.1	
RoCE (%)	28.7	17.6	30.0		31.7	33.9	
RoE (%)	22.5	13.0	23.4		24.1	25.9	

## Key takeaways of recent quarter and conference call highlights

- As guided by the management in its pre-quarterly update, the jewellery division (excluding gold bullion sale in both the quarters) reported 4% revenue de-growth. Titan's jewellery division's revenue growth trajectory disappointed on account of dual impact of Omicron in January and sharp rise in gold prices in March leading to deferment of purchase by the customers. The previous quarter (Q4FY21) also had a large B2B order of gold coins (~₹ 400 crore). Adjusted for the same, this will result in flattish YoY growth. The company's digital arm CaratLane (73% subsidiary) continued to perform well and registered YoY revenue growth of 43%. Consolidated jewellery revenue (including CaratLane) grew 3% YoY to ₹ 6843 crore (I-direct estimate: ₹ 6530 crore). The beat is mainly on account of higher gold bullion sales worth ₹ 375 crore (vs. ₹ 25 crore in Q4FY21). Watches division reported 12% YoY revenue growth to ₹ 625 crore, which was mainly led by pricing growth. Eyewear division reported 6% revenue growth to ₹ 134 crore. Overall revenue grew 4% YoY to ₹ 7796 crore (I-direct estimate: ₹ 7480 crore)
- Share of studded ratio improved 400 bps YoY to 34% with revenues growing 7% YoY (but still below pre-Covid levels). This led gross margins to improve 310 bps YoY to 25.3% (I-direct estimate: 24.0%). Employee expenses grew 36% YoY to ₹ 396 crore (includes ex gratia worth ₹ 82 crore). Marketing spends as a percentage to sales increased 120 bps YoY to 2.5%. Other expenses grew 30% YoY to ₹ 582 crore. Higher operating expenses resulted in EBITDA declining 3% YoY to ₹ 794 crore (I-direct estimate: ₹ 853 crore). EBITDA margins declined 70 bps YoY to 10.2% (I-direct estimate: 11.4%). On the segmental front, EBIT margins for jewellery division improved 47 bps YoY to 11.2% while watches segment reported EBIT loss of ₹ 35 crore vs. EBIT profit of ₹ 38 crore in Q4FY21
- Despite various headwinds, Titan reported robust revenue growth of 36% YoY in FY22 and continues to be one of the fastest growing discretionary companies in our coverage universe. (two year CAGR: 15%). The company has begun April on a very strong note and expects Q1FY23 to be healthy owing to a strong wedding season. Gradual increase in share of studded ratio resulted in gross margins improving 70 bps YoY in FY22. Furthermore, positive operating leverage and gains on diamond inventory (₹ 190 crore) resulted in EBITDA margins improving 360 bps YoY to 11.6%. PAT more than doubled to ₹ 2198 crore in FY22 (two year CAGR: 21%)
- Inventory days scaled up sharply from 142 days to 173 days (up 62% YoY in absolute terms). We believe higher inventory stocking, is on anticipation of a healthy Q1FY23 (after two successive quarters of washout). Subsequently, the company reported negative OCF worth ~₹ 800 crore in FY22. Also, Titan incurred capex worth ₹ 225 crore in FY22. The company continues to carry healthy cash and investments worth ₹ 1570 crore. RoCE is back to pre-Covid levels at 30% in FY22 (FY20: 29%, FY21: 18%)
- Robust performance in challenging times reaffirms our thesis of long term market share gains for Titan. The company continues to expand its network in the jewellery (added 36 Tanishq stores and 21 CaratLane stores) and other segments and is looking to garner higher market share in regions where it has a lower market share than its national average. We build in revenue and earnings CAGR of 20% and 32%, respectively, in FY22-24E. Titan has, over the years, withstood challenges and emerged as a resilient player. We believe Titan is a structural growth story and appears to be a key beneficiary of the unorganised to organised shift in the Indian jewellery market. We reiterate BUY with a revised target price of ₹ 2725 (66x FY24E EPS, previous target price: ₹ 2960).**

## Q4FY22 conference call highlights

### Jewellery division:

- The jewellery division reported a flattish revenue performance YoY (post adjusting for a large B2B order in the base quarter). The management indicated other than the Omicron impact, there was also demand deferral during the quarter due to higher gold price and gold price volatility. On the operational metric front, walk-ins saw a minor decline but ticket sizes grew 3% YoY and conversion ratio remained healthy. Studded revenues grew 7% YoY and ratio in the overall mix improved by ~400 bps; Plain segment revenues declined 4% YoY. Wedding jewellery declined 9% YoY. Other categories, however, grew 2% YoY thereby cushioning the overall impact
- On demand outlook the management indicated that demand trends in April have been encouraging and are in line with the company's targets. The management is hopeful of a strong wedding season, which would aid the revenue growth
- On the competitive scenario, the management highlighted that it was strengthening its competitive positioning. All the big organised players have been aggressively expanding their retail footprint and there was a visible tendency among customers to move towards trusted brands rather than buying from unorganised local jewellers
- The management also indicated that gold hallmarking had stabilised in the districts that were notified. However, a broader implementation of the scheme across India would require modification in the scheme framework and may take few years to be fully implemented as the Indian jewellery industry is highly fragmented
- On gross margin front, the management highlighted that increased revenue share from southern India can marginally subdue the gross margins but expansion into the Bharat market would not lead to dilution of gross margins
- The share of revenue from Golden Harvest Scheme was at 18% in Q4FY22 vs. 15% in Q4FY21. In FY20, the share was ~ 20% and the management believes that it is gradually inching towards FY20 level
- On the gold sourcing front, the company continued to utilise a mix of spot buying, gold on lease and gold exchange. The gold exchange ratio was at 28% in Q4FY22 vs 27% in Q4FY21

### Watches division and other

- Watches division grew 12% YoY amid a challenging external environment with key channels of Titan World, LFS exhibiting healthy double digit growth rates of 13%, 17%, respectively. The management indicated that the growth in the quarter was entirely value led with volumes remaining flattish YoY. All of Titan brands including Fastrack, Sonata, Xylys, etc, together grew 12% YoY. Region wise West and North regions saw much higher growth
- On the store network front, over 44 Titan World stores were renovated to a new format to offer a wider choice of premium brands and thereby enhance the overall customer experience. On store addition in Fast Track brand, the management highlighted that no new stores were added and five stores were closed as the management is in the process of restructuring the brand image and products. The company indicated that it would be opening 10-12 new Fast Track stores across the country in FY23
- The profitability of the watches division was impacted due to exceptional expenses related to VRS & ex-gratia payment made to employees
- The management indicated that the eyewear business revenue growth was impacted during the quarter due to Omicron and year end channel correction. Also, profitability was lower owing to exceptional expense on VRS and higher employee expense (ex gratia payment to employees). April sales have shown good traction for the eyewear division

**Exhibit 1: Variance Analysis**

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Revenue	7796.0	7480.7	7494.0	4.0	10037.0	-22.3	Grammage de-grew by 7% YoY, while gold prices were up 6% YoY in Q4FY22. Volume for watches division declined 1% YoY
Raw Material Expense	5,827.0	5,687.6	5,837.0	-0.2	7,501.0	-22.3	Gross margins expansion on account of inventory gains on diamond (₹ 130 crore) and improvement in share of studded ratio (up 400 bps YoY)
Employee Expenses	395.0	333.3	290.0	36.2	324.0	21.9	Includes ex-gratia to employees worth ₹ 82 crore
Advertising Expenses	198.0	133.3	101.0	96.0	208.0	-4.8	
Other Expenses	582.0	474.0	449.0	29.6	562.0	3.6	
EBITDA	794.0	852.6	817.0	-2.8	1,442.0	-44.9	Higher opex impacted EBITDA for the quarter
EBITDA Margin (%)	10.2	11.4	10.9	-72 bps	14.4	-418 bps	
Depreciation	102.0	100.9	93.0	9.7	98.0	4.1	
Interest	61.0	58.7	51.0	19.6	57.0	7.0	
Other Income	76.0	58.7	57.0	33.3	57.0	33.3	
PBT before Exceptional item	707.0	751.7	730.0	-3.2	1,344.0	-47.4	
Exceptional Item	-53.0	0.0	0.0		0.0		Pertains to VRS expense worth ₹ 53 crore
PBT	654.0	751.7	730.0	-10.4	1,344.0	-47.4	
Tax Outgo	126.0	189.2	162.0	-22.2	332.0	-62.0	
PAT	528.0	562.5	567.0	-6.9	1012.0	-47.8	

**Key Metrics**

**Jewellery**

Revenues (₹ Crore)	6,843.0	6,530.0	6,678.0	2.5	9,059.0	-24.5	SSSG: 4%, Retail sales growth: 1%
Segment EBIT Margin (%)	11.2	NA	10.7		14.2		

**Watches**

Revenues (₹ Crore)	625.0	626.1	559.0	11.8	710.0	-12.0	
Segment EBIT Margin (%)	-5.6	NA	6.8		11.3		

Source: Company, ICICI Direct Research

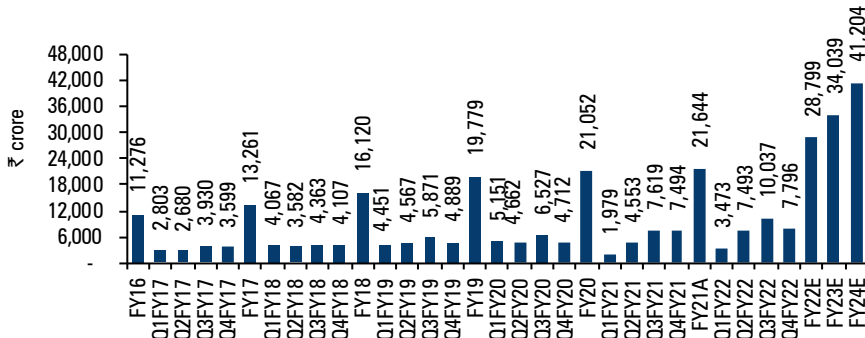
**Exhibit 2: Change in estimates**

(₹ Crore)	FY22E		FY23E			FY24E		
	Actual	Old	New	% Change	Old	New	% Change	
Revenue	28,799.0	35,207.0	34,039.5	-3.3	42,608.0	41,203.5	-3.3	
EBITDA	3,341.0	4,505.0	4,047.0	-10.2	5,576.0	5,266.5	-5.6	
EBITDA Margin (%)	11.6	12.8	11.9	-91 bps	13.1	12.8	-31 bps	
PAT	2,173.0	3,069.2	2,745.7	-10.5	3,856.2	3,664.6	-5.0	
EPS (₹)	24.5	34.6	30.9	-10.6	43.5	41.3	-5.1	

Source: Company, ICICI Direct Research

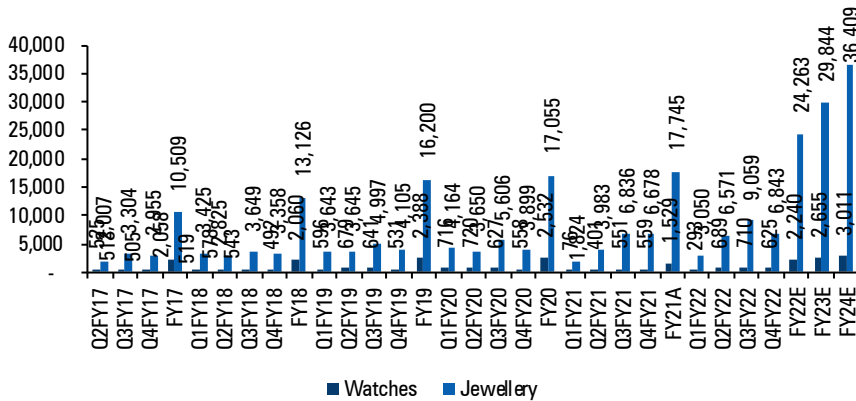
## Financial story in charts

Exhibit 3: Revenue trend



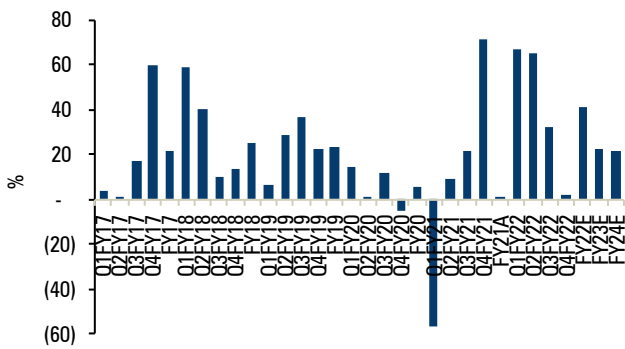
Source: Company, ICICI Direct Research. Other business includes ethnic segment

Exhibit 4: Divisional performance (revenue)



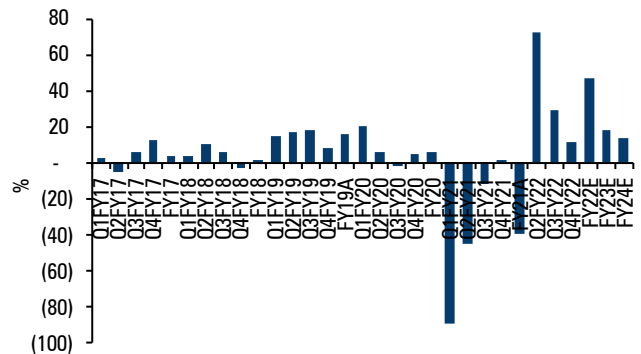
Source: Company, ICICI Direct Research

Exhibit 5: Jewellery segment growth



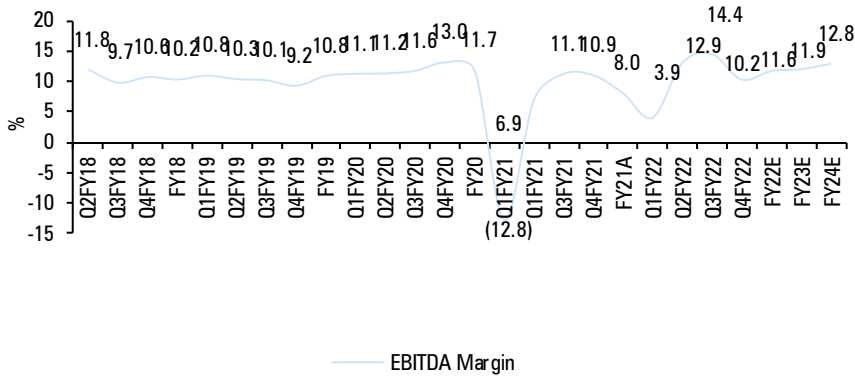
Source: Company, ICICI Direct Research

Exhibit 6: Watches segment growth



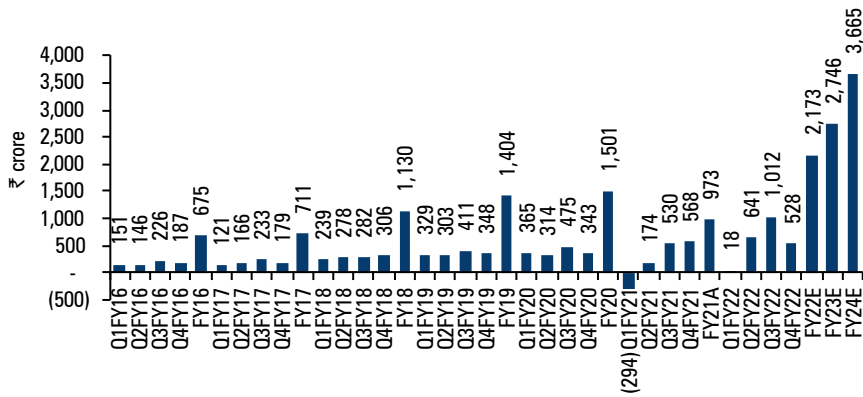
Source: Company, ICICI Direct Research

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)	(%)	(%)
FY20	21,051.5	6.4	16.9	6.9	135.4	82.5	22.5	28.7
FY21A	21,644.0	2.8	11.0	-35.2	208.9	116.0	13.0	17.6
FY22E	28,799.0	33.1	24.5	123.3	93.6	60.4	23.4	30.0
FY23E	34,039.5	18.2	30.9	26.4	74.0	49.9	24.1	31.7
FY24E	41,203.5	21.0	41.3	33.5	55.5	38.1	25.9	33.9

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 10: Profit and loss statement		₹ crore			
(Year-end March)	FY21A	FY22E	FY23E	FY24E	
Total operating Income	21,644.0	28,799.0	34,039.5	41,203.5	
Growth (%)	2.8	33.1	18.2	21.0	
Raw Material Expenses	16,414.0	21,641.0	25,121.1	30,078.6	
Employee Expenses	1,065.0	1,349.0	1,565.8	1,854.2	
Mfg, Admin & selling Exps	2,441.0	2,468.0	3,305.6	4,004.3	
Total Operating Expenditure	19,920.0	25,458.0	29,992.5	35,937.1	
<b>EBITDA</b>	<b>1,724.0</b>	<b>3,341.0</b>	<b>4,047.0</b>	<b>5,266.5</b>	
Growth (%)	-30.1	93.8	21.1	30.1	
Depreciation	375.0	399.0	422.2	459.1	
Interest	203.0	218.0	223.2	225.7	
Other Income	186.0	234.0	269.1	317.5	
PBT	1,332.0	2,958.0	3,670.8	4,899.1	
Exceptional items*	0.0	54.0	0.0	0.0	
Total Tax	353.0	706.0	925.0	1,234.6	
Share of JV/Minority int	-6.0	-25.0	0.0	0.0	
<b>PAT</b>	<b>973.0</b>	<b>2,173.0</b>	<b>2,745.7</b>	<b>3,664.6</b>	
Growth (%)	-35.2	123.3	26.4	33.5	
<b>EPS (₹)</b>	<b>11.0</b>	<b>24.5</b>	<b>30.9</b>	<b>41.3</b>	

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement		₹ crore			
(Year-end March)	FY21A	FY22E	FY23E	FY24E	
PAT	973.0	2,173.0	2,745.7	3,664.6	
Add: Depreciation	375.0	399.0	422.2	459.1	
Add: Finance Cost	203.0	218.0	223.2	225.7	
(Inc)/dec in Current Assets	-230.6	-6,062.0	-1,981.0	-2,728.9	
Inc/(dec) in CL and Provisions	2,616.4	2,457.0	-27.4	1,435.4	
Others	215.1	-5.9	0.0	0.0	
<b>CF from operating activities</b>	<b>4,151.8</b>	<b>-820.9</b>	<b>1,382.6</b>	<b>3,055.9</b>	
(Inc)/dec in Investments	-2,666.1	2,553.0	-5.9	-9.0	
(Inc)/dec in Fixed Assets	-111.9	-206.9	-320.0	-310.0	
(Inc)/dec in CWIP	-13.8	-53.0	25.5	17.9	
Others	40.6	-72.0	-50.0	0.0	
<b>CF from investing activities</b>	<b>-2,751.1</b>	<b>2,221.1</b>	<b>-350.4</b>	<b>-301.2</b>	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-557.9	353.0	-484.6	-3.3	
Less: Finance Cost	-203.0	-218.0	-223.2	-225.7	
Dividend Paid	-355.1	-366.5	-665.0	-916.1	
Others	-106.6	-155.2	-177.8	-173.6	
<b>CF from financing activities</b>	<b>-1,222.6</b>	<b>-386.7</b>	<b>-1,550.6</b>	<b>-1,318.7</b>	
Net Cash flow	178.1	1,013.5	-518.4	1,436.0	
Opening Cash	381.2	559.3	1,572.8	1,054.4	
<b>Closing Cash</b>	<b>559.3</b>	<b>1,572.8</b>	<b>1,054.4</b>	<b>2,490.4</b>	

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet		₹ crore			
(Year-end March)	FY21A	FY22E	FY23E	FY24E	
<b>Liabilities</b>					
Equity Capital	88.8	88.8	88.8	88.8	
Reserve and Surplus	7,407.5	9,214.0	11,294.7	14,043.1	
Total Shareholders funds	7,496.3	9,302.8	11,383.5	14,131.9	
Total Debt	165.0	518.0	33.4	30.0	
Deferred Tax Liability	(97.0)	(181.0)	(181.0)	(171.2)	
Other long term liabilities	1,261.0	1,364.1	1,364.1	1,364.2	
<b>Total Liabilities</b>	<b>8,825.3</b>	<b>11,003.8</b>	<b>12,600.0</b>	<b>15,354.9</b>	
<b>Assets</b>					
Gross Block	2,128.0	2,334.9	2,654.9	2,964.9	
Less: Accu Depreciation	669.0	887.9	1,132.2	1,407.9	
Net Block	1,459.0	1,447.0	1,522.7	1,557.0	
Capital WIP	32.0	85.0	59.5	41.7	
Goodwill on Consolidation	123.0	123.0	123.0	123.0	
Total Fixed Assets	1,614.0	1,655.0	1,705.3	1,721.7	
Investments	2,848.0	295.0	300.9	309.9	
Inventory	8,408.0	13,609.0	15,387.7	17,497.4	
Debtors	366.0	565.0	559.6	677.3	
Loans and Advances	1,513.0	2,175.0	2,382.8	2,884.2	
Other Current Assets	-	-	-	-	
Cash	559.3	1,572.8	1,054.4	2,490.4	
Total Current Assets	10,846.3	17,921.8	19,384.5	23,549.4	
Creditors	4,999.0	6,692.0	7,274.2	8,579.4	
Other Current Liabilities	2,336.0	3,050.0	2,518.9	2,595.8	
Provisions	186.0	236.0	157.5	210.9	
Total Current Liabilities	7,521.0	9,978.0	9,950.6	11,386.1	
Net Current Assets	3,325.3	7,943.8	9,433.8	12,163.3	
Others Non Current Assets	1,038.0	1,110.0	1,160.0	1,160.0	
<b>Application of Funds</b>	<b>8,825.3</b>	<b>11,003.8</b>	<b>12,600.0</b>	<b>15,354.9</b>	

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios					
(Year-end March)	FY21A	FY22E	FY23E	FY24E	
<b>Per share data (₹)</b>					
EPS	11.0	24.5	30.9	41.3	
Cash EPS	15.3	29.3	35.7	46.4	
BV	84.4	104.8	128.2	159.2	
DPS	4.0	4.0	7.5	10.3	
Cash Per Share	6.3	17.7	11.9	28.1	
<b>Operating Ratios</b>					
EBITDA Margin (%)	8.0	11.6	11.9	12.8	
PBT Margin (%)	6.2	10.3	10.8	11.9	
PAT Margin (%)	4.5	7.6	8.1	8.9	
Inventory days	141.8	172.5	165.0	155.0	
Debtor days	6.2	7.2	6.0	6.0	
Creditor days	84.3	84.8	78.0	76.0	
<b>Return Ratios (%)</b>					
RoE	13.0	23.4	24.1	25.9	
RoCE	17.6	30.0	31.7	33.9	
RoIC	31.7	37.0	36.0	34.8	
<b>Valuation Ratios (x)</b>					
P/E	208.9	93.6	74.0	55.5	
EV / EBITDA	116.0	60.4	49.9	38.1	
EV / Net Sales	9.2	7.0	5.9	4.9	
Market Cap / Sales	9.4	7.1	6.0	4.9	
Price to Book Value	27.1	21.9	17.9	14.4	
<b>Solvency Ratios</b>					
Debt/EBITDA	0.1	0.2	0.0	0.0	
Debt / Equity	0.0	0.1	0.0	0.0	
Current Ratio	1.4	1.8	1.9	2.1	
Quick Ratio	0.3	0.4	0.4	0.5	

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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