

Multiple levers enable strong show in Q1FY23...

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 2300+ stores spread across 2.9+ 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

Q1FY23 results: Titan reported a healthy operational performance with strong beat on the margins front. Buoyed by strong festive/wedding season and a normalised quarter after a gap of two years, the jewellery division registered its second highest ever quarterly revenues in Q1FY23.

- As guided by the management in its pre-quarterly update, the jewellery division (excluding gold bullion sale) reported robust sales growth of 204% YoY to ₹ 7995 crore (impressive three year CAGR: 24%). Watches segment reported 169% YoY growth to ₹ 786 crore (110% of pre-Covid levels), whereas eyewear division reported 173% YoY growth to ₹ 183 crore (123% of pre-Covid levels). Overall consolidated revenues (including gold bullion sale: ₹ 356 crore) grew 172% YoY to ₹ 9443 crore
- Improvement in studded ratio and positive operating leverage led to robust EBITDA margins (up 870 bps YoY to 12.7%). Absolute EBITDA was at ₹ 1196 crore with robust three year CAGR of 28%

What should investors do? Titan has been an exceptional performer in the discretionary space with stock price appreciating at ~32% 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 ₹ 2800 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)
- Aspires to grow jewellery revenues by 2.5x by FY27 (implied CAGR: 20%). Huge headroom for growth with current market share at ~6% in ₹ 4 lakh crore market
- Thrust on the 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

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 ₹ 2170/share



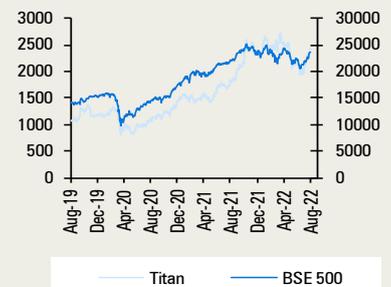
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	2,15,732.0
Debt (FY22) (₹ Crore)	518.0
Cash & investments (FY22) (₹ Crore)	1,572.8
EV (₹ Crore)	2,14,677.2
52 week H/L	2767 / 1763
Equity Capital (₹ Crore)	88.8
Face Value (₹)	1

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	52.9	52.9	52.9	52.9	52.9
FII	18.4	19.1	18.6	18.4	16.8
DII	10.1	10.3	10.5	10.2	11.4
Others	18.6	17.8	18.1	18.5	18.9

Price Chart



Key risks

- (i) Lower studded ratio can subdue margins (ii) Significant increase in gold prices can impact volumes

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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	36,637.9	42,930.0	22.1
EBITDA	2,466.6	1,724.0	3,341.0	23.0	4,426.8	5,426.5	27.4
PAT	1,501.4	973.0	2,173.0	26.0	3,012.7	3,752.0	31.4
EPS (₹)	16.9	11.0	24.5		33.9	42.3	
P/E (x)	143.7	221.7	99.3		71.6	57.5	
EV/Sales (x)	10.3	9.8	7.4		5.9	5.0	
EV/EBITDA (x)	87.5	123.3	64.2		48.5	39.3	
RoCE (%)	28.7	17.6	30.0		34.3	34.3	
RoE (%)	22.5	13.0	23.4		25.9	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 robust sales growth of 204% YoY to ₹ 7995 crore (impressive three year CAGR: 24%). Sales growth was driven by both buyer and ticket sizes, with new buyer contribution continuing to be healthy at 46%. Share of studded ratio surpassed pre-Covid levels with contribution increasing 400 bps YoY to 26.0% (Q1FY20: 25%). Wedding segment also registered healthy growth of 178% YoY but contribution to overall sales declined marginally. CaratLane (72% subsidiary) registered highest ever sales on the day of Akshaya Tritiya and recorded 204% YoY revenue growth to ₹ 483 crore in Q1FY23. Watches segment reported 169% YoY growth to ₹ 786 crore (110% of pre-Covid levels) whereas eyewear division reported 173% YoY growth to ₹ 183 crore (123% of pre-Covid levels). Overall consolidated revenues (including gold bullion sale: ₹ 356 crore) grew 172% YoY to ₹ 9443 crore (I-direct estimate: ₹ 9329 crore)
- The management indicated that inflationary scenario has impacted demand for lower end or entry level jewellery products but demand is steady for higher ticket size, high value and studded segments. July is expected to be on the softer side as there is no festive buying but expect stronger growth in August. Robust growth in Q1FY23 implies that even if remaining quarters show no growth, jewellery division will still exit FY23 with 20%+ growth. Hence, given the strong beat we revise our revenue estimates upwards for the jewellery division and build in 33% YoY sales growth in FY23E (excluding gold bullion sale). Titan's regionalisation strategy in key focus market (**regions where it has a lower market share than its national average**) is bearing fruit with market share gains in regions such as south and east
- Owing to better studded mix, gross margins expanded 310 bps YoY to 25.5% (I-direct estimate: 24.5%). The company also highlighted that the margin had a one off benefit of 90 bps owing to increase in diamond prices and spot gold purchases. Marketing spends continued to be at higher levels of 2.3% as percentage to revenues (Q1FY22: 1.4%, Q4FY22: 2.5%). On account of positive operating leverage, (employee and other expenses as percentage to sales declined 490 bps and 165 bps YoY, respectively), EBITDA margins expanded significantly by 870 bps YoY to 12.7% (Q4FY22: 10.2%, I-direct estimate: 11.3%). Absolute EBITDA was at ₹ 1196 crore (higher than our estimate of ₹ 1054 crore) with robust three year CAGR of 28%. On the segmental front, EBIT margins for jewellery division improved 611 bps YoY to 12.6%, while watches segment reported EBIT margins of 12.5% vs. EBIT loss of ₹ 61 crore in Q1FY22
- Tracking robust operational performance, PAT was at ₹ 790 crore (Q1FY22: 18.0 crore, I-direct estimate: ₹ 708 crore). On a three year CAGR basis, PAT growth was at an impressive 29%
- Titan continues to be one of the fastest growing discretionary companies (three year CAGR: 21%) in our retail coverage universe. Robust performance in challenging times reaffirms our thesis of long term market share gains for Titan. It 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. Capital employed for jewellery division reduced sharply by 27% QoQ to ₹ 3891 crore, which is expected to result in strong FCF generation in Q1FY23 (Titan had significantly ramped its jewellery inventory in Q4FY22). We build in revenue and earnings CAGR of 22% and 31%, respectively, in FY22-24E. We reiterate BUY with a revised target price of ₹ 2800 (66x FY24E EPS, previous TP: ₹ 2725)**

Q1FY23 conference call highlights

Jewellery division:

- On the demand front, the management indicated that greater traction was witnessed in the higher ticket size, high value and studded segments. The lower end or entry level jewellery products were witnessing muted growth compared to high value products. The management believes that increase in customs duty has not significantly impacted the sales momentum
- The strong margin in jewellery segment in Q1FY23 was primarily on account of operating leverage and richer product mix. The company also highlighted that the margin had a one off benefit of 90 bps owing to increase in diamond prices and spot gold purchases. On a steady state basis, the company is aiming to maintain an EBIT margin of 12-13% in the jewellery segment
- On the regional performance of jewellery segment, over the last three years southern and eastern India have gained strong traction
- On the store addition front, the management indicated they were aggressively planning to expand the retail footprint and Q2FY23 would witness higher store addition. The company is aiming to open 35-40 Tanishq stores in FY23, which can increase to 50 stores depending on availability of quality retail space
- The company's subsidiary CaratLane registered an EBIT margin of 6.9% in Q1FY23. The management indicated that operating leverage would aid in further improvement in the margin profile. The company has an ambition to increase CaratLane's EBIT margin to more than 10% over next five years
- The company's studded jewellery activation started in mid-July and the performance of the same has been as per the expectation of the management. The management indicated that diamond prices have been increasing and the company has increased the prices in November 2021, January and March 2022. The management indicated that if the upward trend in diamond prices continues, then it may have to take another price increase in the ensuing quarters
- The management highlighted that the benefit of compulsory gold hallmarking is not visible on a large scale. The market has got used to hallmarking and doing it. Some small jewellers are facing difficulties due to increased cost of compliance
- On enhancing the international retail footprint, the management indicated that it has aggressive plans of store opening in GCC countries. The company already has three international stores with the fourth store expected to start soon. The company is aiming to open 20 international stores in FY23. Revenue from international stores is currently around ₹ 50 crore

Watches division and others

- The watches division clocked its best ever quarterly revenues on the back of healthy growth across channels and brands. The growth in all the channels came off a low base of Q1FY22 (except e-commerce). Demand for watches was robust due to a strong wedding season with significantly higher number of marriages in April and May
- The watches segment reported an EBIT margin of 12.5%, which is the best margin over several quarters. The management highlighted that operating leverage was enabling better margin and also better product, brand and channel mix had led to improvement in the margin for the quarter
- The company undertook transformation of Titan World and expansion of Helios stores to provide wider choice of premium brands to consumers. The company renovated 28 Titan World store during Q1FY23
- The watches division ramped up its advertising spends across brands and categories to ~₹ 67 crore (9% of sales)

- The EyeCare division achieved its highest quarterly revenues of ₹ 183 crore in Q1FY23 led by growth in all its major categories. The division added 56 new stores during the quarter taking the total count to 789 stores. The company clocked healthy EBIT margins of 20% despite higher spends in marketing (₹ 12 crore). Going forward, the management expects EBIT margins in the range of 15-16% to be sustainable
- Fragrances and Fashion Accessories (F&FA) division exhibited a 275% YoY growth driven by healthy growth in trade, LFS and e-commerce
- Titan's ethnic wear brand 'Taneira's sales grew 608% YoY on a low base. The brand continued to expand its national presence adding six stores in Q1FY23 and is currently present in 11 cities including all four Metro cities

Exhibit 1: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	9443.0	9328.8	3473.0	171.9	7796.0	21.1	Grammage de-grew by 170% YoY, while gold prices were up 10% YoY in Q1FY23. Volume for watches division grew 109% YoY
Raw Material Expense	7,038.0	7,041.1	2,695.0	161.2	5,827.0	20.8	Gross margins expansion on account of inventory gains on diamond (80-90 bps) and improvement in share of studded ratio (up 400 bps YoY)
Employee Expenses	387.0	361.8	313.0	23.6	395.0	-2.0	
Advertising Expenses	218.0	259.7	49.0	344.9	198.0	10.1	
Other Expenses	604.0	612.3	279.0	116.5	582.0	3.8	
EBITDA	1,196.0	1,053.9	137.0	773.0	794.0	50.6	3-year EBITDA CAGR: 28%
EBITDA Margin (%)	12.7	11.3	3.9	872 bps	10.2	248 bps	Positive operating leverage boosted EBITDA margins
Depreciation	103.0	108.1	95.0	8.4	102.0	1.0	
Interest	65.0	64.7	49.0	32.7	61.0	6.6	
Other Income	44.0	64.6	46.0	-4.3	76.0	-42.1	
PBT before Exceptional item	1,072.0	945.7	39.0	2,648.7	707.0	51.6	
Exceptional Item	0.0	0.0	0.0		-53.0		
PBT	1,072.0	945.7	39.0	2,648.7	654.0	51.6	
Tax Outgo	282.0	238.0	21.0	1,242.9	126.0	123.8	
PAT	790.0	707.7	18.0	4,288.9	528.0	49.6	3-year PAT CAGR: 29%

Key Metrics

Jewellery

Revenues (₹ Crore)	8,351.0	8,061.0	3,050.0	173.8	6,468.0	29.1	SSSG: 195%, Retail sales growth: 202%
Segment EBIT Margin (%)	12.6	NA	6.5		11.9		

Watches

Revenues (₹ Crore)	786.0	755.9	293.0	168.3	625.0	25.8	
Segment EBIT Margin (%)	12.5	NA	-20.8		-5.6		

Source: Company, ICICI Direct Research

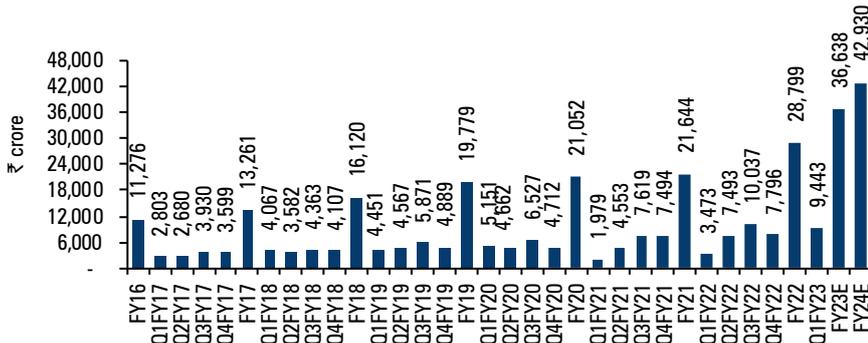
Exhibit 2: Change in estimates

(₹ Crore)	FY22		FY23E			FY24E		
	Actual	Old	Old	New	% Change	Old	New	% Change
Revenue	28,799.0	34,039.5	34,039.5	36,637.9	7.6	41,203.0	42,930.0	4.2
EBITDA	3,341.0	4,047.0	4,047.0	4,426.8	9.4	5,266.5	5,426.5	3.0
EBITDA Margin (%)	11.6	11.9	11.9	12.1	19 bps	12.8	12.6	-14 bps
PAT	2,173.0	2,745.7	2,745.7	3,012.7	9.7	3,664.6	3,752.0	2.4
EPS (₹)	24.5	30.9	30.9	33.9	9.8	41.3	42.3	2.3

Source: Company, ICICI Direct Research

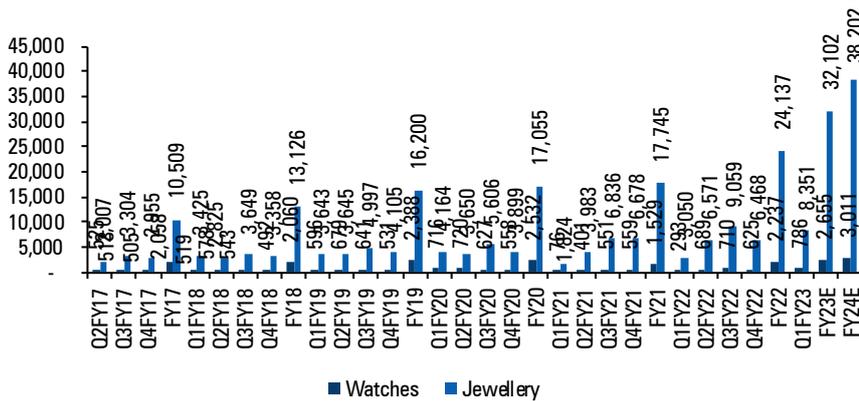
Financial story in charts

Exhibit 3: Revenue trend



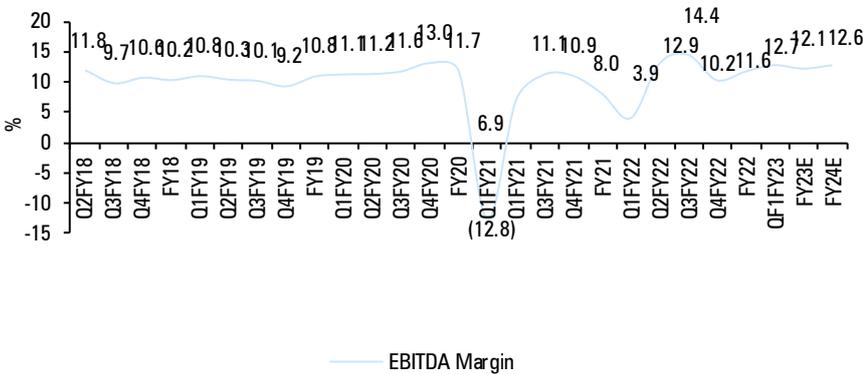
Source: Company, ICICI Direct Research

Exhibit 4: Divisional performance (revenue)



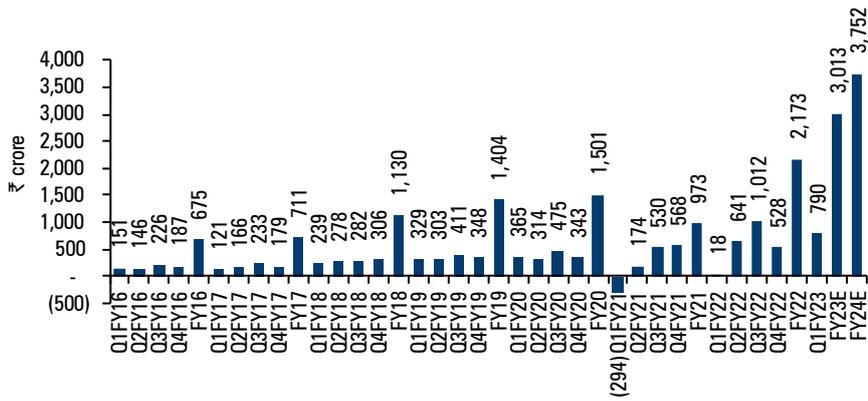
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin trend (post Ind-AS 116)



Source: Company, ICICI Direct Research

Exhibit 6: Net profit trend



Source: Company, ICICI Direct Research.

Exhibit 7: Valuation

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY20	21,051.5	6.4	16.9	6.9	143.7	87.5	22.5	28.7
FY21	21,644.0	2.8	11.0	-35.2	221.7	123.3	13.0	17.6
FY22	28,799.0	33.1	24.5	123.3	99.3	64.2	23.4	30.0
FY23E	36,637.9	27.2	33.9	38.6	71.6	48.5	25.9	34.3
FY24E	42,930.0	17.2	42.3	24.5	57.5	39.3	25.9	34.3

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Total operating Income	21,644.0	28,799.0	36,637.9	42,930.0	
Growth (%)	2.8	33.1	27.2	17.2	
Raw Material Expenses	16,414.0	21,641.0	27,038.8	31,510.6	
Employee Expenses	1,065.0	1,349.0	1,685.3	1,888.9	
Mfg, Admin & selling Exps	2,441.0	2,468.0	3,487.0	4,104.0	
Total Operating Expenditure	19,920.0	25,458.0	32,211.1	37,503.5	
EBITDA	1,724.0	3,341.0	4,426.8	5,426.5	
Growth (%)	-30.1	93.8	32.5	22.6	
Depreciation	375.0	399.0	422.5	457.1	
Interest	203.0	218.0	245.7	270.8	
Other Income	186.0	234.0	269.1	317.5	
PBT	1,332.0	2,958.0	4,027.7	5,016.1	
Exceptional items*	0.0	54.0	0.0	0.0	
Total Tax	353.0	706.0	1,015.0	1,264.0	
Share of JV/Minority int	-6.0	-25.0	0.0	0.0	
PAT	973.0	2,173.0	3,012.7	3,752.0	
Growth (%)	-35.2	123.3	38.6	24.5	
EPS (₹)	11.0	24.5	33.9	42.3	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
PAT	973.0	2,173.0	3,012.7	3,752.0	
Add: Depreciation	375.0	399.0	422.5	457.1	
Add: Finance Cost	203.0	218.0	245.7	270.8	
(Inc)/dec in Current Assets	-230.6	-6,087.0	-3,355.3	-2,212.1	
Inc/(dec) in CL and Provisions	2,616.4	2,457.0	729.3	1,153.9	
Others	215.1	0.0	0.0	0.0	
CF from operating activities	4,151.8	-840.0	1,055.0	3,421.8	
(Inc)/dec in Investments	-2,666.1	2,553.0	-5.9	-9.0	
(Inc)/dec in Fixed Assets	-111.9	-201.0	-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	
CF from investing activities	-2,751.1	2,227.0	-350.4	-301.2	
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	-245.7	-270.8	
Dividend Paid	-355.1	-366.5	-665.0	-938.0	
Others	-106.6	-142.0	-177.6	-173.1	
CF from financing activities	-1,222.6	-373.5	-1,572.9	-1,385.2	
Net Cash flow	178.1	1,013.5	-868.4	1,735.4	
Opening Cash	381.2	559.3	1,572.8	704.4	
Closing Cash	559.3	1,572.8	704.4	2,439.8	

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Liabilities					
Equity Capital	88.8	88.8	88.8	88.8	
Reserve and Surplus	7,407.5	9,214.0	11,561.7	14,375.7	
Total Shareholders funds	7,496.3	9,302.8	11,650.5	14,464.5	
Total Debt	165.0	518.0	33.4	30.0	
Deferred Tax Liability	(97.0)	(181.0)	(181.0)	(171.0)	
Other long term liabilities	1,261.0	1,389.0	1,389.3	1,389.6	
Total Liabilities	8,825.3	11,028.8	12,892.2	15,713.2	
Assets					
Gross Block	2,128.0	2,282.0	2,602.0	2,912.0	
Less: Accu Depreciation	669.0	835.0	1,079.6	1,353.3	
Net Block	1,459.0	1,447.0	1,522.4	1,558.7	
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	1,704.9	1,723.3	
Investments	2,848.0	295.0	300.9	309.9	
Inventory	8,408.0	13,609.0	16,562.3	18,230.5	
Debtors	366.0	565.0	602.3	705.7	
Loans and Advances	1,513.0	2,200.0	2,564.7	3,005.1	
Other Current Assets	-	-	-	-	
Cash	559.3	1,572.8	704.4	2,439.8	
Total Current Assets	10,846.3	17,946.8	20,433.6	24,381.1	
Creditors	4,999.0	6,692.0	7,829.5	8,938.8	
Other Current Liabilities	2,336.0	3,050.0	2,711.2	2,704.6	
Provisions	186.0	236.0	166.6	217.8	
Total Current Liabilities	7,521.0	9,978.0	10,707.3	11,861.2	
Net Current Assets	3,325.3	7,968.8	9,726.4	12,519.9	
Others Non Current Assets	1,038.0	1,110.0	1,160.0	1,160.0	
Application of Funds	8,825.3	11,028.8	12,892.2	15,713.2	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios					
(Year-end March)	FY21	FY22	FY23E	FY24E	
Per share data (₹)					
EPS	11.0	24.5	33.9	42.3	
Cash EPS	15.3	29.3	38.7	47.4	
BV	84.4	104.8	131.2	162.9	
DPS	4.0	4.0	7.5	10.6	
Cash Per Share	6.3	17.7	7.9	27.5	
Operating Ratios					
EBITDA Margin (%)	8.0	11.6	12.1	12.6	
PBT Margin (%)	6.2	10.3	11.0	11.7	
PAT Margin (%)	4.5	7.6	8.2	8.7	
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	
Return Ratios (%)					
RoE	13.0	23.4	25.9	25.9	
RoCE	17.6	30.0	34.3	34.3	
RoIC	31.7	37.0	37.5	35.1	
Valuation Ratios (x)					
P/E	221.7	99.3	71.6	57.5	
EV / EBITDA	123.3	64.2	48.5	39.3	
EV / Net Sales	9.8	7.4	5.9	5.0	
Market Cap / Sales	10.0	7.5	5.9	5.0	
Price to Book Value	28.8	23.2	18.5	14.9	
Solvency Ratios					
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

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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