Stock Update

Company Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Titan Company Ltd

Jewellery shines; watches continue to tick

Consumer Discretionary		Sharekhan code: TITAN	
Reco/View: Buy	↔	CMP: Rs. 2,730	Price Target: Rs. 3,140 ↑

↑ 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 14.9

Updated Aug 08, 2022

Low Risk

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

Source: Morningstar

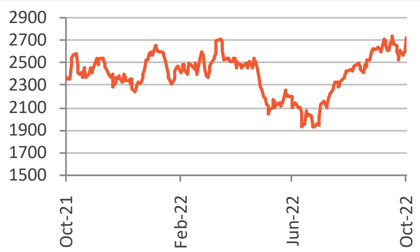
Company details

Market cap:	Rs. 242,366 cr
52-week high/low:	Rs. 2,768 / 1,827
NSE volume: (No of shares)	14.4 lakh
BSE code:	500114
NSE code:	TITAN
Free float: (No of shares)	41.8 cr

Shareholding (%)

Promoters	52.9
FII	17.6
DII	11.3
Others	18.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.5	27.3	8.8	14.9
Relative to Sensex	4.9	20.5	10.9	17.4

Sharekhan Research, Bloomberg

Summary

- Sustained demand momentum and improved footfalls in jewellery and watches businesses helped standalone revenues grow by 18% y-o-y (consolidated revenues to grow ~20%) in Q2FY2023.
- Jewellery business grew by 18% while watches business grew by 20%. On the flip side, the eyecare business grew by a muted 7%.
- Jewellery business revenues would grow at 20% with higher ticket-size sales, expansion in stores and market share gains; EBIT margins of jewellery business to sustain at 12-13%. Eyecare business would maintain profitable growth while watches business would maintain strong growth in the near term.
- The stock trades at 74.4x/59.7x its FY2023E/24E earnings. We retain our Buy recommendation on the stock with a revised PT of Rs. 3,140.

Titan Company Limited's (Titan's) pre-quarter update indicates sustained growth momentum in the jewellery and watches businesses in Q2FY2023. The standalone jewellery business saw revenues grow 18% y-o-y despite a high base of Q2FY2022 led by pent-up demand while watches segment registered strong growth of 20% during the quarter. Eyecare business had a muted quarter with revenues growing just 7%. Subsidiaries such as Caratlane and Titan Engineering & Automation (TEAL) registered strong performance of with revenues growing by 139% y-oy and Caratlane registering 56% y-o-y revenue growth. We expect consolidated revenues to grow by ~20% y-o-y to Rs. 9,014.3 crore (standalone revenues grew by 18% y-o-y) in Q2FY2023. Consolidated EBIDTA margins are expected to be at ~12.6%. The company aims to achieve consistent double-digit revenue growth over the next five years by strengthening core businesses such as watches, jewellery, and eyecare through efficient capital allocation. Further, profitability is expected to improve steadily led by consistent growth in the jewellery business and scale-up in new ventures.

- **Jewellery business - Revenue grew by 18% y-o-y:** The jewellery business' revenues (excluding bullion sales in the base quarter) grew by 18% y-o-y i.e., to ~Rs. 6,980 crore. Gold jewellery (plain) clocked low double-digit growth whereas studded sales were higher than the overall division driven by good activations and better contribution from high value purchases. Product mix improved versus last year but continued to lag pre-pandemic levels. EBIT margins of jewellery business are expected to be at around 12-13%.
- **Watches grew by 20% y-o-y; Eyecare delivered muted sales performance:** The watches and wearables division registered 20% y-o-y growth clocking its highest quarterly revenues. The strong tailwind demand led by a desire to own more premium/differentiated watches helped brand Titan grow fastest in the watches category aided by higher volume and average selling prices y-o-y. Double-digit y-o-y sales growth in the Titan Eye+ stores was offset by lower y-o-y sales across trade & distribution channel leading to an overall 7% y-o-y growth for the Eyecare division.
- **Strong H1; festive season to drive growth ahead:** Titan posted strong numbers for in H1FY2023 with revenues growing by 68% y-o-y led by strong pent-up demand and improvement in the footfalls. EBIDTA margins are expected to be at around 12.5%. Festive season prospects continue to be optimistic and is visible in positive consumer sentiment across categories (started from Navratri in the end of Sept,2022). Watches and wearables are expected to post strong growth, with watches gaining strong traction across key channels, while the wearables segment is expected to grow better than the watches segment. Eyecare business will continue to focus on achieving profitable growth.

Our Call

View: Retain Buy with a revised price target of Rs. 3,140: Titan is aiming to generate revenue CAGR of over 20% during FY2022-FY2027 led by an ambitious growth plan for the medium term. This along with consistent margin improvement will help cash flows improve strongly in the coming years. FY2023 will be a strong year for the company due to low base in core businesses. The company's strong growth outlook, industry tailwinds in the medium term, and strong balance sheet make it a best play in the retail space. The stock is currently trading at 74.4x/59.7x its FY2023E/24E earnings. We have introduced FY2025E estimates through this note. We maintain a Buy on the stock with a revised price target of Rs. 3,140 (valuing at October 2024 earnings).

Key Risks

Any sustained inflationary pressures or slowdown in key business verticals would act as a key risk to our earnings estimates.

Valuation (Consolidated) Rs cr

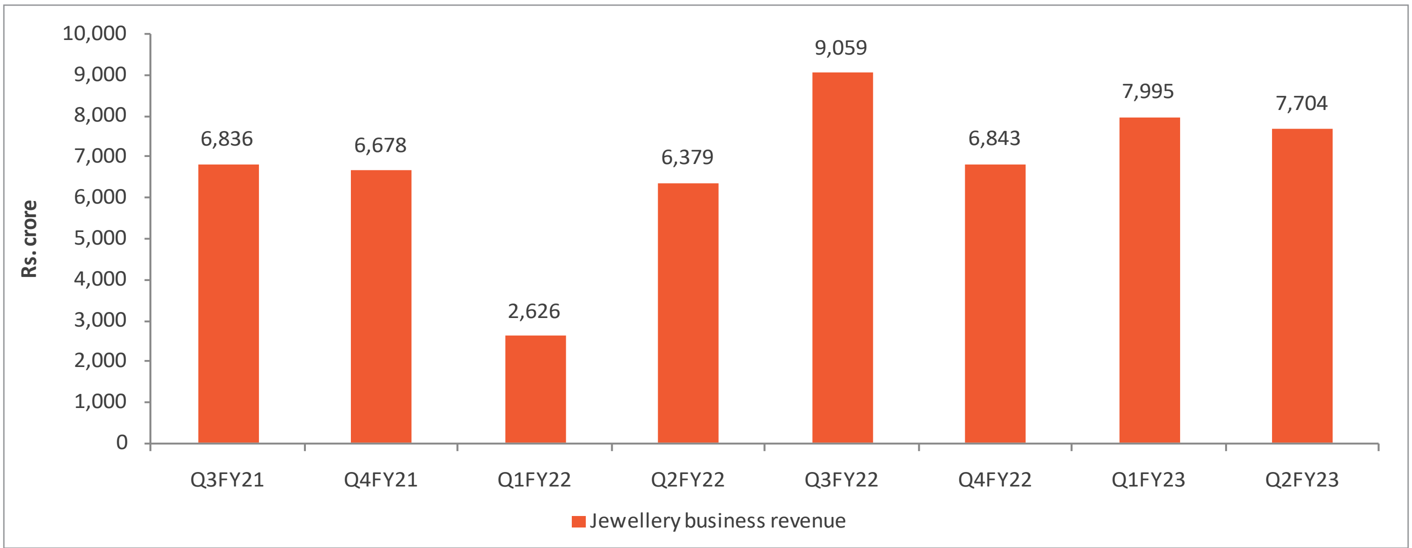
Particulars	FY22	FY23E	FY24E	FY25E
Revenue	28,799	39,303	45,375	52,473
OPM (%)	11.6	12.4	13.2	13.7
Adjusted PAT	2,238	3,257	4,059	4,926
% Y-o-Y growth	127.4	45.5	24.6	21.4
Adjusted EPS (Rs.)	25.2	36.7	45.7	55.5
P/E (x)	-	74.4	59.7	49.2
P/B (x)	26.1	20.2	15.6	12.2
EV/EBIDTA (x)	72.8	50.0	40.5	33.3
RoNW (%)	26.6	30.5	29.4	27.8
RoCE (%)	30.5	36.5	37.4	36.8

Source: Company; Sharekhan estimates

Jewellery business growth at 18% y-o-y on a high base of Q2FY22

The jewellery division grew by 18% y-o-y on a high base of Q2FY22 that had elements of pent-up demand and spill-over purchases of a COVID-disrupted Q1FY22. Gold jewellery (plain) clocked low double-digit growth whereas studded jewellery sales were higher than the overall division driven by good activations and better contribution from high value purchases. The product mix improved as compared to last year but continued to be below pre-pandemic levels. Walk-ins grew in low double digits y-o-y with steady buyer conversions. New store commissions comprised eight domestic stores in Tanishq, 16 in Mia by Tanishq and one in Zoya, taking jewellery store count to 488.

Trend in Titan's jewellery business' revenue

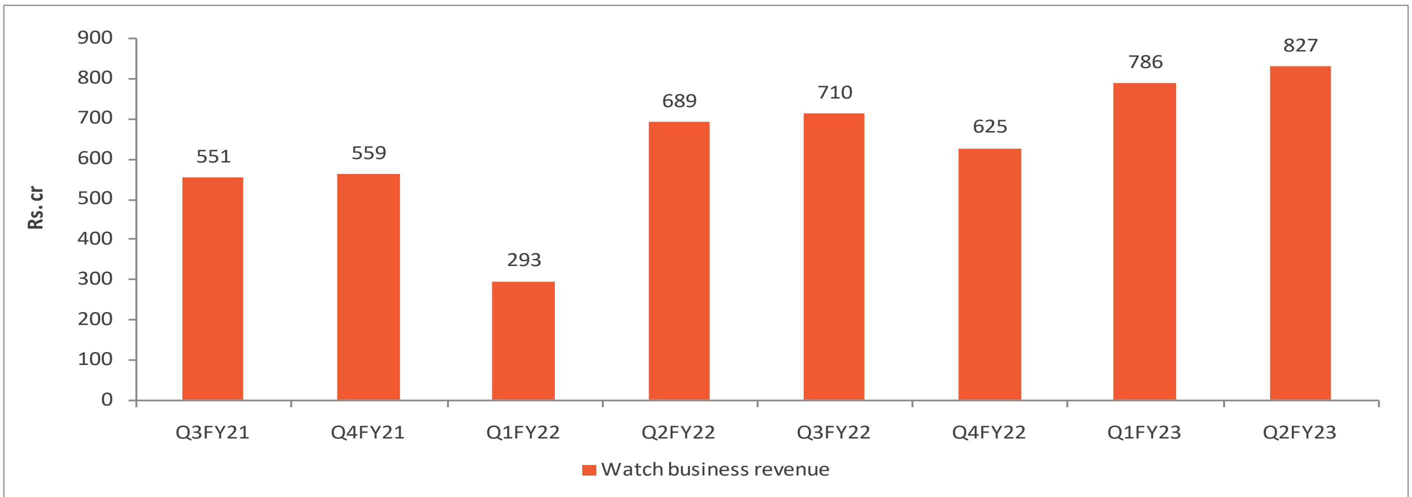


Source: Company, Sharekhan Research

Watches and wearables grew by 20% y-o-y driven by multiple factors

The watches and wearables division registered 20% y-o-y growth clocking its highest quarterly revenue. Strong demand tailwinds, led by a desire to own more premium/differentiated watches helped brand Titan grow fastest in the watches category aided by higher volume and average selling prices y-o-y. The retail store transformation journey which aims to offer a wider choice of premium brands to consumers in Titan World, Helios and multi-brand retailers also helped in powering overall growth for the division. The quarter saw the launch of Titan and Fastrack smartwatches with Bluetooth calling feature. The division continued its store expansions pan-India (net) with seven new store additions of Titan World, 14 of Helios and two of Fastrack during the quarter, taking the watches and wearables business store count to 905.

Revenue trend of the watches business

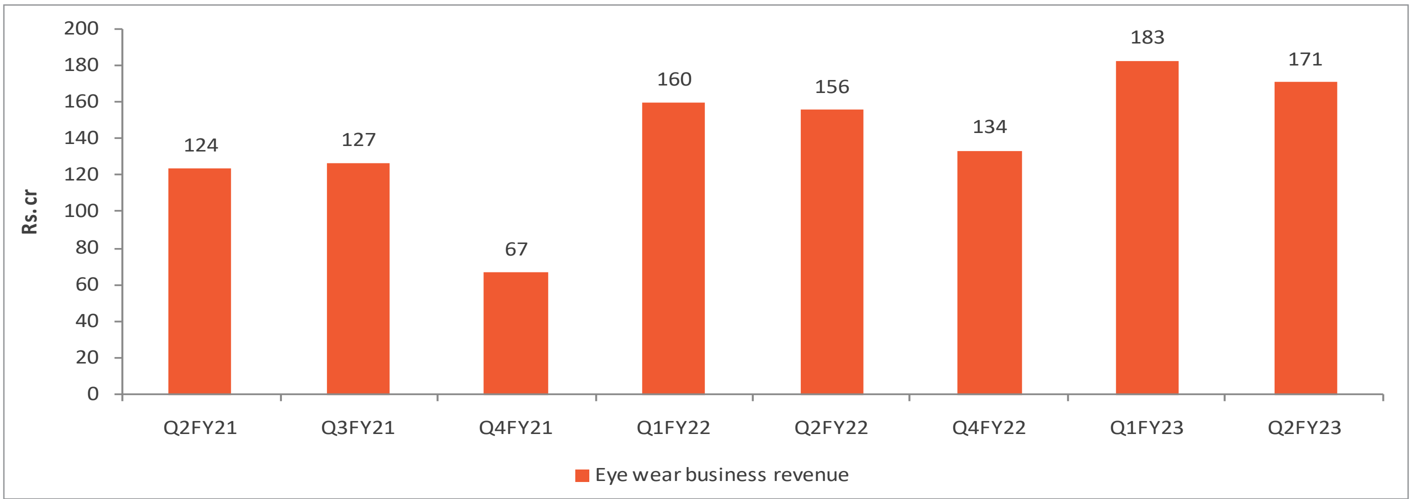


Source: Company, Sharekhan Research

Eyecare growth at 7% y-o-y, impacted by trade & distribution channel

Double-digit y-o-y sales growth for Titan Eye+ stores was offset by lower y-o-y sales across trade & distribution channel leading to an overall 7% y-o-y growth for the Eyecare division. During Q2FY23, Eyecare expanded its nation-wide presence adding 36 new stores in Titan Eye+ and 2 new Fastrack prescription stores (net), taking the store count for the Eyecare business to 827.

Revenue trend of the eyewear business



Source: Company, Sharekhan Research

Other businesses (Fragrances and Fashion Accessories (F&FA), Indian Dress Wear) continued strong momentum

F&FA grew by 34% y-o-y driven by 37% y-o-y growth in fragrances and 29% y-o-y growth in fashion accessories. Among key offline channels for F&FA, large format stores (LFS) grew fastest followed by trade, both clocking much higher growths than the overall division. Taneira grew by 114% y-o-y with meaningful contributions from new stores opened over the last one year. The brand entered the cities of Madurai, Hubli and Dhanbad and also deepened its existing cities' presence by opening 5 new stores during the quarter thereby expanding its reach to 31 stores across 14 cities.

Subsidiaries put up strong show

- **Titan Engineering & Automation Limited (TEAL):** TEAL reported 139% y-o-y growth with Automation Solutions Division growing by 240% y-o-y and Aerospace and Defence Division clocking 66% y-o-y growth.
- **CaratLane (72.3% owned):** Caratlane grew by 56% y-o-y driven by promotions around Raksha Bandhan and hero launches during the quarter. Across categories, solitaires grew the fastest followed by studded and gold jewellery. Studded continued to contribute ~70% of the business despite a larger base as compared to last year.

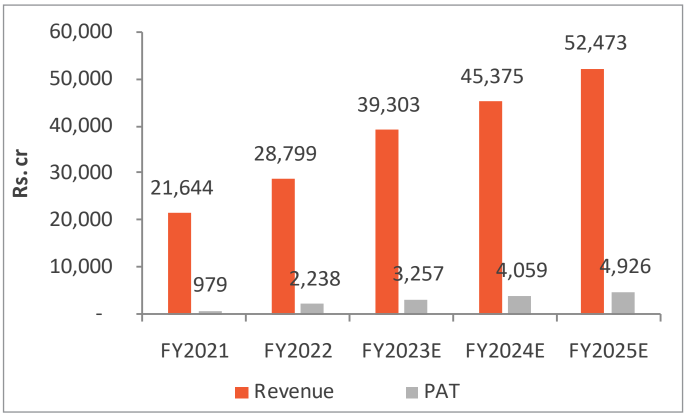
Revenue growth and store additions across segments and businesses

Segment/Subsidiary	Revenue y-o-y growth	New store additions (Net)	Total stores at quarter end
Jewellery	18%	25	488
Watches and wearables	20%	23	905
Eyecare	7%	38	827
Other businesses	58%	5	31
Titan (Standalone)	**18%**	**91**	**2,251**
Subsidiary: TEAL	139%	-	-
Subsidiary: CaratLane	56%	14	157

Source: Company; Sharekhan Research

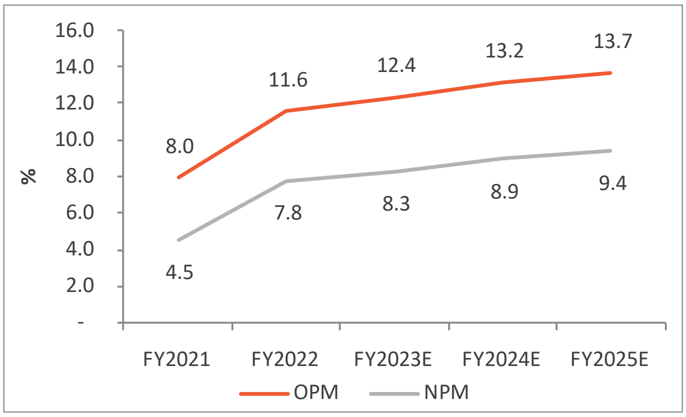
Financials in charts

Stable increase in revenue and PAT



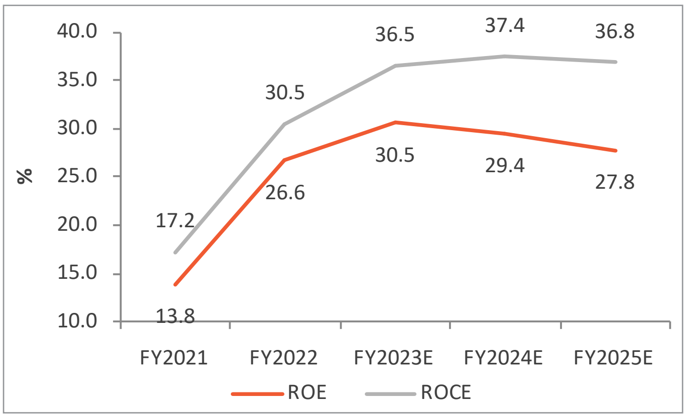
Source: Company, Sharekhan Research

Margins to improve significantly



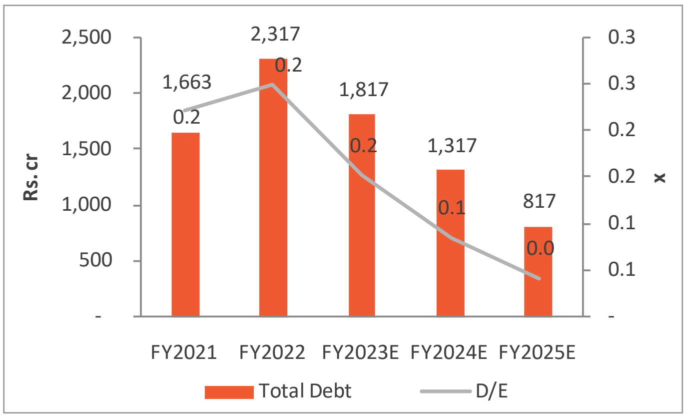
Source: Company, Sharekhan Research

Trend in return ratios



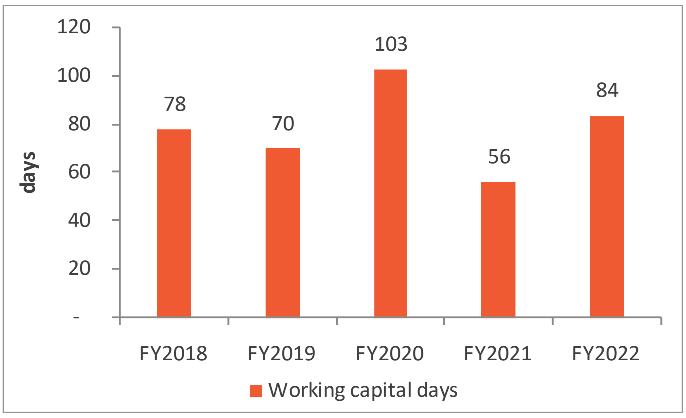
Source: Company, Sharekhan Research

Debt levels to reduce



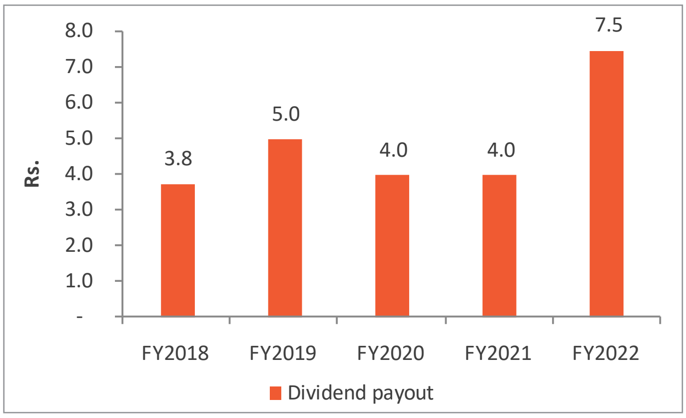
Source: Company, Sharekhan Research

Trend in working capital days



Source: Company, Sharekhan Research

Consistent dividend payout history



Source: Company, Sharekhan Research

Outlook and Valuation

Sector view - Strong FY2023 for the retail sector; Medium-term growth prospects intact

Managements of most retail, jewellery, restaurant, and hotel companies stated that the strong growth momentum witnessed in February-March 2022 has sustained in the following months and will help companies to generate strong performance in FY2023. Further, with the scare of the pandemic receding, sectors such as footwear, apparel and retail are likely to witness higher growth due to stable operations in the quarters ahead. Thus, FY2023 is expected to be one of strongest years for discretionary companies as recovery in footfalls and higher ticket purchases led by pent-up demand would lead to strong revenue growth. Further, better operating leverage will boost profitability of these companies in the coming quarters.

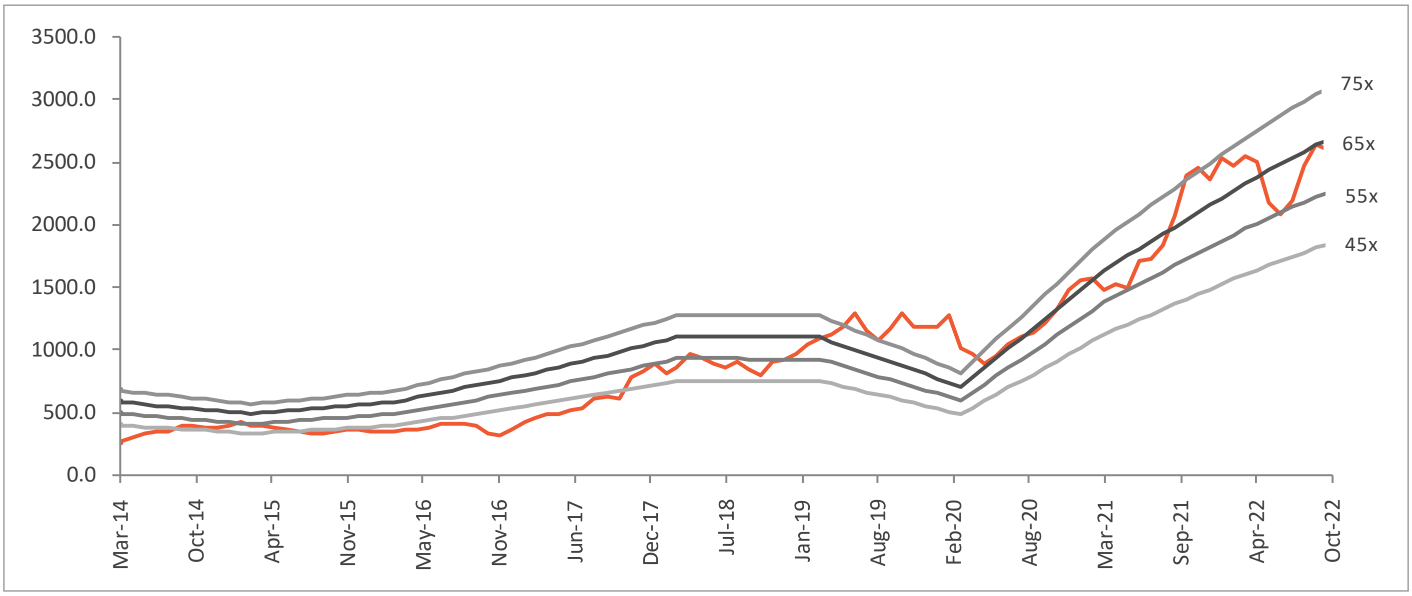
Company outlook - Growth momentum expected to sustain

Titan started FY2023 on a strong note with revenue growing by 3.0x (207%) on a consolidated basis to Rs. 9,180 crore. Despite near-term headwinds of high inflation, the company is confident of maintaining good growth momentum in the quarters ahead led by market share gains, network expansion, and shift to trusted brands. The company aims to achieve consistent double-digit revenue growth over the next five years by strengthening core businesses such as watches, jewellery, and eyecare through efficient capital allocation plans. Further, profitability is expected to consistently improve with consistent growth in the jewellery business and scale-up in new ventures.

Valuation - Retain Buy with a revised PT of Rs. 3,140

Titan is aiming to generate revenue CAGR of over 20% during FY2022-FY2027 led by an ambitious growth plan for the medium term. This along with consistent margin improvement will help cash flows improve strongly in the coming years. FY2023 will be a strong year for the company due to low base in core businesses. The company's strong growth outlook, industry tailwinds in the medium term, and strong balance sheet make it a best play in the retail space. The stock is currently trading at 74.4x/59.7x its FY2023E/24E earnings. We have introduced FY2025E estimates through this note. We maintain a Buy on the stock with a revised price target of Rs. 3,140 (valuing at October 2024 earnings).

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Trent	-	-	66.3	56.5	36.4	27.3	9.6	13.4	18.3
Titan Company	-	74.4	59.7	72.8	50.0	40.5	30.5	36.5	37.4

Source: Company; 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 eye care segment with its brand, Titan Eye Plus, and in other segments such as perfumes. The company recently entered the saree market with its brand, Taneira. Titan has a retail chain of over 2,200 stores across 337 towns with retail area crossing 2.8 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 eye care. 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

S. Krishnan	Chairman
C.K. Venkataraman	Managing Director
N.N. Tata	Vice Chairman
Ashok Kumar Sonthalia	Chief Financial Officer
Dinesh Shetty	General Counsel, Company Secretary and Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Jhunjhunwala Rakesh	3.98
2	Life Insurance Corp of India	3.26
3	Vanguard Group Inc.	1.78
4	SBI Funds Management	1.49
5	Blackrock Inc.	1.31
6	Jhunjhunwala Rekha Rakesh	1.07
7	ICICI Prudential Life Insurance Co.	1.03
8	UTI Asset Management Co Ltd.	0.91
9	Sands Capital Management LLC	0.89
10	Ewart Investments	0.56

Source: Bloomberg

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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