Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Titan Company

Strong Q2; growth momentum to sustain

Consumer Discretionary	Sharekhan code: TITAN
Reco/View: Buy ↔	CMP: Rs. 2,768
	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 Oct 08, 2022

Low Risk

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

Source: Morningstar

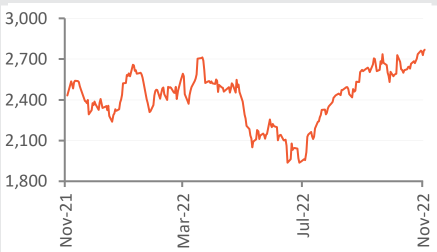
Company details

Market cap:	Rs. 2,45,766 cr
52-week high/low:	Rs. 2,790 / 1,827
NSE volume: (No of shares)	14.6 lakh
BSE code:	500114
NSE code:	TITAN
Free float: (No of shares)	41.8 cr

Shareholding (%)

Promoters	52.9
FII	17.9
DII	11.9
Others	17.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.1	13.8	25.4	13.9
Relative to Sensex	2.1	9.4	14.2	12.4

Sharekhan Research, Bloomberg

Summary

- Sustenance of good demand momentum and improved footfalls in jewellery aided Titan's consolidated revenues to grow by 18% (ex-bullion sales) to Rs. 8,567 crore with EBIDTA margins improving by 69 bps to 13.6% and PAT growing by 30% y-o-y to Rs. 835 crore.
- Jewellery business grew by 18% while watches business grew by 20% in Q2. Eyecare business registered muted sales growth of ~4%.
- Jewellery business revenues would grow at 20% with higher ticket-size sales, expansion in stores and market share gains; EBIT margins of the jewellery business to sustain at 12-13%. Watches business would see consistent double-digit growth with EBIT margins of 13-14% while eyecare business would deliver mid-teen margins.
- Stock is currently trading at 71.4x/61.3x its FY2023/24E earnings. We retain our Buy recommendation on the stock with an unchanged PT of Rs. 3,140.

Titan Company Limited (Titan) posted strong performance in Q2FY2023 with revenues and PAT growing by 18% and 30%, respectively. Consolidated revenues (including bullion sales) grew by 22% in Q2. Standalone jewellery business registered a revenue growth of 18% despite high base of Q2FY2022 led by pent-up demand while watches segment registered strong growth of 21% during the quarter. Eyecare business had a muted quarter with 4.4% revenue growth. Subsidiaries Caratlane and Titan Engineering & Automation (TEAL) registered strong performance with revenues growing by 53% and 132% respectively. Consolidated EBIDTA margins improved by 69 bps to 13.6% with EBIT margins of jewellery business improving to 15.3% on back of better operating leverage and higher realisation (including 200 bps one-time benefits). Management is confident of achieving strong growth across its key business verticals and scale-up in the new ventures in the medium to long run.

Key positives

- New buyers' contribution for jewellery business has increased to 50% in Q2FY2023 from 46% in Q2.
- Studded jewellery sales grew by 25%; contribution increased to 32%.
- Watches business grew by 21% on back of healthy in the premium segment and on premium channels.
- Overall EBIDTA margins improved by 69 bps y-o-y to 13.6% led by improved margins in the jewellery business.

Key negatives

- Eyecare business registered moderate growth of 4.4% in Q2.

Management Commentary

- Jewellery business' revenues grew by 18% in Q2 led by 15% growth in the domestic business. Total buyers grew by 10% (new buyers contribution stood at 50%). Good pick-up was seen in the studded jewellery. Premium and higher ticket size purchases maintained its strong growth momentum while Rs. 50,000-1,00,000 ticket size sales witnessed some slowdown due to higher inflation.
- The festive season started on good note with month of Oct-2022 witnessing a 18-19% growth. Management expects the growth momentum to sustain during the rest of the quarter. Jewellery business revenues grew at CAGR of 23% over the past 3-4 years with growth in ticket size of around 17% while growth due to market share gains stood at 6%.
- International jewellery business is expected to be around Rs. 2,500 crore by FY2025-26 with strong store expansion in key geographies.
- Watches and wearables also witnessed strong growth at premium end of the portfolio while economy range witnessed some slowdown. The company witnessed strong sales growth on the premium channels. Management expects the growth to sustain in the coming years.
- Jewellery business EBIT margins would sustain at 12-13%, Watches & Wearables business' EBIT would stand at 13-14% and Eyecare business EBIT margins to stand at mid-teens over the next two years.

Revision in estimates – We have fine-tunned our earnings estimates for FY2023, FY2024 and FY2025 to factor in better than expected performance in Q2FY2023 and little better EBIDTA margins than earlier anticipated.

Our Call

View: Retain Buy with an unchanged price target of Rs. 3,140: Titan is aiming to generate revenue CAGR of over 20% revenue during FY2022-FY2027 on back of its ambitious growth plan in the medium term. This along with consistent margin improvement will help cash flows to 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 71x/61x its FY2023/24E earnings. We maintain our Buy recommendation on the stock with an unchanged price target of Rs. 3,140.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Revenue	21,644	28,799	39,700	44,661	51,647
OPM (%)	8.0	11.6	12.9	13.3	13.7
Adjusted PAT	984	2,238	3,441	4,006	4,842
% Y-o-Y growth	-35.2	127.4	53.7	16.4	20.9
Adjusted EPS (Rs.)	11.0	25.2	38.8	45.1	54.5
P/E (x)	252.3	109.8	71.4	61.3	50.8
P/B (x)	32.8	26.4	20.1	15.7	12.3
EV/EBIDTA (x)	143.2	73.8	48.3	41.5	34.3
RoNW (%)	13.8	26.6	32.0	28.7	27.1
RoCE (%)	17.2	30.5	38.2	36.6	36.1

Source: Company; Sharekhan estimates

Strong Q2 – Revenues grew by 20%+; EBIDTA margins improved by 69 bps y-o-y

Consolidated revenue grew by 22.3% y-o-y to Rs. 9,163 crore, against our expectation of Rs. 9,015 crore. Excluding gold ingots, revenue grew by 18.3 y-o-y to Rs. 8,567 crore, ahead of average street expectation of Rs. 8,371 crore. Revenue of the jewellery business grew by 18% y-o-y (excluding the gold ingot sales), while revenue of the watches and eyewear business grew by 20.5% and 4% respectively. Gross margins improved by 262 bps y-o-y to 27.6%. EBIDTA margins improved by 69 bps y-o-y to 13.6% and EBIDTA grew by 29% y-o-y to Rs. 1,247 crore. Reported PAT grew by 30% y-o-y to Rs. 835 crore (higher than our as well as street expectation of Rs. 751 crore and Rs. 740 crore respectively).

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. India business revenues grew by 15% (like-to-like growth of 11%) and international business revenues grew by 400% (off low base). Good pick-up was seen in the studded jewellery. Premium and higher ticket size purchases maintained its strong growth momentum while Rs. 50,000-1,00,000 ticket size sales witness some slowdown due to higher inflation. 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. Studded jewellery revenues grew by 25% with contribution increasing to 32% in Q2FY23 from 30% in Q2FY22. Wedding jewellery sales demand remained muted in Q2. Jewellery business EBIT margins improved by 233 BPS to 15.3% led by better operating leverage and higher realisation across portfolio. Also there was one-time benefit of 200 BPS towards custom benefits and early buying of diamond aiding in to clock higher realisation during surge diamond prices. New store commissions (net) comprised of eight domestic stores in Tanishq, 16 in Mia by Tanishq and one in Zoya, taking the jewellery business store count to 488.

Watches and wearables grew by 20% y-o-y; EBIT margins stood at 15%

The watches and wearables division registered a 20% y-o-y growth driven by healthy growth across key brands and channels. The strong tailwind demand led by a desire to own more premium/differentiated watches helped brand Titan to achieve double-digit volume fastest in the watches category. Wearable sales tripled on y-o-y basis resulting in improvement in contribution to the overall sales. 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. EBIT margins of watches and wearable business improved by 145 BPS to 14.8%. 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.

Eyecare growth at 4.4% y-o-y, impacted by trade & distribution channel

Eyecare division grew moderately by 4.4% as large sales shifted to discretionary spends from necessary spends in post pandemic era. 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 single digit growth for the Eyecare division. EBIT margin of division stood at 16.5% with EBIT standing at Rs. 28 crore. 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.

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

Other business revenues grew by 57% y-o-y to Rs73 crore. 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. Amongst 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 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 thereby expanding its reach to 31 stores across 14 cities.

Subsidiaries' performance

- **Titan Engineering & Automation Limited (TEAL):** TEAL reported 132% y-o-y growth to Rs. 123 crore with Automation Solutions Division growing by 240% y-o-y and Aerospace and Defence Division clocking 66% y-o-y growth. The AS division clocked one of its best quarterly revenues. Though enquiries continued to be robust, due to delay in customer decisions to award new projects, there was a double digit decline in the order inflows for the quarter. EBIT margins stood at 11.2% with EBIT coming at Rs. 14 crore.
- **CaratLane (72.3% owned):** Caratlane grew 53% y-o-y driven by promotions around Raksha Bandhan and hero launches during the quarter. Across categories, solitaires grew the fastest (~12% contribution to revenue for Q2FY23). Studded revenue grew at ~57% y-o-y and continues to contribute ~70% of the overall business. EBIT margin came at 6.5% with EBIT standing at Rs. 29 crore.

Results (Consolidated) Rs cr

Particulars	Q2FY23	Q2FY22	y-o-y (%)	Q1FY23	q-o-q (%)
Net sales	**8,567.0**	**7,243.0**	**18.3**	**8,975.0**	**-4.5**
Other operating revenues	596.0	250.0	-	468.0	27.4
Total Revenue	**9,163.0**	**7,493.0**	**22.3**	**9,443.0**	**-3.0**
Raw material cost	6,630.0	5,618.0	18.0	7,038.0	-5.8
Employee cost	392.0	317.0	23.7	387.0	1.3
Advertising	224.0	135.0	65.9	218.0	2.8
Other expenses	670.0	455.0	47.3	604.0	10.9
Total operating cost	7,916.0	6,525.0	21.3	8,247.0	-4.0
Operating profit	**1,247.0**	**968.0**	**28.8**	**1,196.0**	**4.3**
Other income	61.0	55.0	10.9	44.0	38.6
Interest & other financial cost	60.0	51.0	17.6	65.0	-7.7
Depreciation	106.0	104.0	1.9	103.0	2.9
Profit Before Tax	**1,142.0**	**868.0**	**31.6**	**1,072.0**	**6.5**
Tax	307.0	227.0	35.2	282.0	8.9
Adjusted PAT before MI	**835.0**	**641.0**	**30.3**	**790.0**	**5.7**
Extraordinary item	0.0	0.0	-	40.0	-100.0
Reported PAT	**835.0**	**641.0**	**30.3**	**750.0**	**11.3**
Adjusted EPS (Rs.)	9.4	7.2	30.3	8.9	5.7
			bps		**bps**
GPM (%)	27.6	25.0	262	25.5	218
EBIDTA margins (%)	13.6	12.9	69	12.7	94
NPM (%)	9.1	8.6	56	8.4	75
Tax rate (%)	26.9	26.2	73	26.3	58

Source: Company, Sharekhan Research

Segment-wise revenue Rs cr

Particulars	Q2FY23	Q2FY22	y-o-y (%)	Q1FY23	q-o-q (%)
Watches	829.0	687.0	20.7	785.0	5.6
Jewellery (excluding bullion sales)	7,203.0	6,106.0	18.0	7,600.0	-5.2
Eyecare	167.0	160.0	4.4	183.0	-8.7
Others/Corporate	109.0	75.0	45.3	81.0	34.6
Bullion sales	482.0	192.0	-	356.0	35.4
Standalone	**8,790.0**	**7,220.0**	**21.7**	**9,005.0**	**-2.4**
Caratlane	448.0	293.0	52.9	483.0	-7.2
TEAL	123.0	53.0	-	89.0	38.2
Others/Consol. Adj.	-137.0	-18.0	-	-99.0	-
Consolidated	**9,224.0**	**7,548.0**	**22.2**	**9,478.0**	**-2.7**

Source: Company, Sharekhan Research

Business wise EBIT Rs cr

Particulars	Q2FY23	Q2FY22	y-o-y (%)	Q1FY23	q-o-q (%)
Watches	123.0	92.0	33.7	103.0	19.4
Jewellery	1,103.0	793.0	39.1	1,027.0	7.4
Eyecare	10.0	36.0	-72.2	36.0	-72.2
Others/Corporate	-31.0	-8.0	-	-45.0	-
Standalone	**1,205.0**	**913.0**	**32.0**	**1,121.0**	
Caratlane	29.0	14.0	-	34.0	-14.7
TEAL	14.0	-1.0	-	-5.0	-
Others/Consol. Adj.	-46.0	-7.0	-	-12.0	-
Consolidated	**1,202.0**	**919.0**	**30.8**	**1,138.0**	**5.6**

Source: Company, Sharekhan Research

Business-wise EBIT margins (%)

Particulars	Q2FY23	Q2FY22	bps (y-o-y)	Q1FY23	bps (q-o-q)
Watches	14.8	13.4	145	13.1	172
Jewellery	15.3	13.0	233	13.5	180
Eyecare	6.0	22.5	-	19.7	-
Standalone	**13.7**	**12.6**	**106**	**12.4**	**126**
Consolidated	**13.0**	**12.2**	**86**	**12.0**	**102**

Source: Company, Sharekhan Research

Retail growth

Brand	Q2FY2023	
	Sales value growth (%)	Like-to-Like growth (%)
Tanishq	69%	62%
Caratlane	155%	121%
World of Titan	92%	84%
Fastrack	86%	87%
Helios	108%	82%
LFS (for watches)	133%	120%
Titan Eye+	61%	45%

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – FY2023 to be strong year for retail & other discretionary companies

During the pandemic, out-of-home/discretionary consumer goods & services were severely affected due to restriction on mobility, cut on discretionary spends to buy more of essentials and restriction put by government authorities affecting the retail store operations. Footwear, branded apparels, restaurants/fine-dine, beverages & confectionaries, multiplexes, hotels and amusement parks companies' registered muted performance in FY2021 and FY2022. However, with receding scare of pandemic, performance of these companies is expected to see strong revival in FY2023. Better operating leverage and improved efficiencies would help branded apparel and retail companies to post higher margins in the coming years. Market share gains, higher traction on e-commerce platform, strong retail space expansion strategy and sustained expansion of product portfolio will help them to post consistent growth in the medium term.

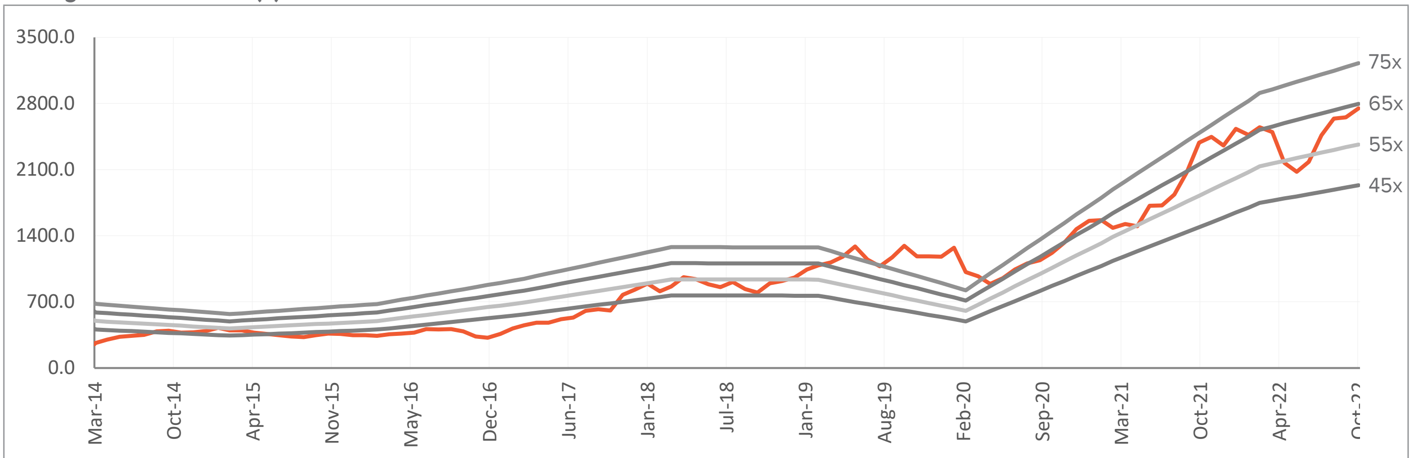
■ Company Outlook – Impact of the third wave to phase out soon; Growth momentum to sustain

Titan started FY2023 on a strong note with revenue growing 70% y-o-y to Rs. 18,606 crore in H1FY2023. Despite near-term headwinds of high inflation, the company is confident of maintaining good growth momentum in the quarters ahead on back of 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 an unchanged PT of Rs. 3,140

Titan is aiming to generate revenue CAGR of over 20% revenue during FY2022-FY2027 on back of its ambitious growth plan in the medium term. This along with consistent margin improvement will help cash flows to 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 71x/61x its FY2023/24E earnings. We maintain our Buy recommendation on the stock with an unchanged price target of Rs. 3,140.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Trent	-	-	68.9	58.7	37.8	28.4	9.6	13.4	18.3
Titan Company	-	71.4	61.3	73.8	48.3	41.5	30.5	38.2	36.6

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 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 2,178 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 Website

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	1.55
4	SBI Funds Management	1.52
5	Blackrock Inc	1.31
6	Jhunjhunwala Rekha Rakesh	1.07
7	ICICI Prudential Life Insurance Co.	1.03
8	UTI AMC	0.91
9	Sands Capital Management	0.89
10	Bessemer Group Inc	0.43

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

Sharekhan

by BNP PARIBAS

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