

Strong execution aiding sustained outperformance

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 ₹ 1600+ crore) and strong brand patronage

Q2FY23 results: The company witnessed strong double-digit growth across most segments (except eyewear division) with overall sales increasing 18% YoY.

- As guided by the management in its pre-quarterly update, the jewellery division (excluding gold bullion sale) reported robust sales growth of 18% YoY to ₹ 7515 crore (impressive three year CAGR: 27%). Watches division recorded its highest quarterly sales of ₹ 830 crore (up 21% YoY). Overall consolidated revenues (including gold bullion sale: ₹ 482 crore) grew 22% YoY to ₹ 9163 crore
- Despite higher marketing & other expenses, improvement in share of studded ratio and positive impact of low cost diamond inventory led to EBITDA margins expanding 70 bps YoY to 13.6% (second highest margin). Absolute EBITDA grew 29% YoY to ₹ 1247 crore (three-year CAGR: 34%)
- Tracking robust operational performance, PAT grew 30% YoY to ₹ 835.0 crore (three year CAGR: 39%)

What should investors do? Titan has been an exceptional performer in the discretionary space with stock price appreciating at ~30% CAGR in last five years.

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

Target Price and Valuation: Introducing FY25E, we roll over our valuations and now value Titan at ₹ 3240 i.e. 66x P/E on average of FY24-25E EPS (earlier TP ₹ 3080).

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 35+ 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 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, pan India network enabling sustained long term profitable growth. TP: ₹ 2225



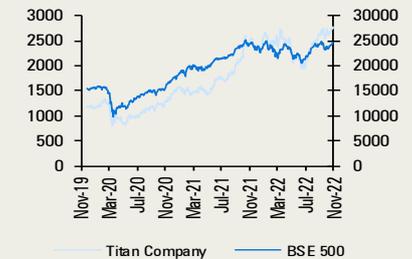
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	2,45,916.7
Debt (FY22) (₹ Crore)	518.0
Cash & investments (FY22) (₹ Crore)	1,572.8
EV (₹ Crore)	2,44,862.0
52 week H/L	2791 / 1825
Equity Capital (₹ Crore)	88.8
Face Value (₹)	1

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	52.9	52.9	52.9	52.9	52.9
FII	19.1	18.6	18.4	16.8	17.0
DII	10.3	10.5	10.2	11.4	11.9
Others	17.8	18.1	18.5	18.9	18.2

Price Chart



Key risks

- (i) Current inflationary scenario can impact demand (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	FY25E	3 year CAGR (FY22-24E)
Net Sales	21,051.5	21,644.0	28,799.0	17.0	38,383.4	44,993.1	53,787.3	23.1
EBITDA	2,466.6	1,724.0	3,341.0	23.0	4,759.8	5,691.6	6,800.2	26.7
PAT	1,501.4	973.0	2,173.0	26.0	3,263.7	3,949.6	4,766.0	29.9
EPS (₹)	16.9	11.0	24.5		36.8	44.5	53.7	
P/E (x)	163.8	252.7	113.2		75.3	62.3	51.6	
EV/Sales (x)	11.7	11.2	8.5		6.4	5.4	4.5	
EV/EBITDA (x)	99.8	140.8	73.2		51.5	42.9	35.7	
RoCE (%)	28.7	17.6	30.0		36.4	35.1	34.0	
RoE (%)	22.5	13.0	23.4		27.4	26.6	25.8	

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 quarters) reported robust sales growth of 18% YoY to ₹ 7515 crore. The growth is impressive (three-year CAGR: 27%) considering that the previous quarter (Q2FY22) was a high base one which had elements of pent-up demand and spillover purchases of a Covid disrupted Q1FY22. Sales growth was driven by both buyer and ticket sizes, with new buyer contribution continuing to be healthy at 50%. Though the share of studded jewellery increased 200 bps YoY to 32% in Q2FY23, it was still trending below pre Covid level of 37% in Q2FY20
- The management highlighted that the studded share in Q2FY20 was abnormally high owing to significant rise in gold prices in Q2FY20, which led to higher share of studded jewellery. CaratLane (Titan's new growth engine), continues to scale up rapidly with sales growth of 53% YoY to ₹ 448 crore in Q2FY23. It has already clocked in ₹ 900+ crore sales in H1FY23 (FY22: ₹ 1250 crore) and is on track to achieve ₹ 2000+ crore sales in FY23. Overall retail sales for Tanishq (secondary) were at 15% YoY with SSSG of 11%. International business continues to perform exceptionally well with sales on a favourable base increasing 5x YoY to ~₹ 230 crore (also includes primary billing). EBIT margin for the jewellery segment improved 138 bps YoY to 13.6%. The strong margin in jewellery segment in Q2FY23 was aided by one offs of custom duty benefit and low cost diamond inventory. On the outlook, the management indicated the company recorded strong festive sales during the 36 -day period of festivity (Navratri-Diwali) with retail sales growth of 19% (on a high base)
- Revenue from watches segment grew 20% YoY to ₹ 830 crore on the back of healthy growth across key brands and channels. Wearables sales nearly tripled YoY (off a low base) thereby leading to an improved contribution to the overall sales. The division continued to invest in marketing spends (up 46% YoY to ₹ 49 crore). Despite higher ad spends, the division generated healthy EBIT margins of 14.7% (up 164 bps YoY). The company continues to witness healthy momentum post festive season. Revenue growth for eyewear segment was sluggish (up 4% YoY to ₹ 167 crore). While July witnessed strong growth, the momentum decelerated in subsequent quarters. The division clocked healthy EBIT margins of 16.5% despite higher spends in marketing of ~ ₹ 11 crore. Other segments grew 57% YoY to ₹ 73 crore, driven by 33% growth in fragrances & fashion accessories (F&FA) and 114% in Taneira. Ad spends in Taneira accelerated to ₹ 10 crore during the quarter (up 255% YoY). During H1FY23 added 11 new Taneira stores taking the total count to 31. The management expects to exit FY23 with 50 stores and add another 34-35 stores in FY24E
- 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. Titan continues to be one of the fastest growing discretionary companies (three year CAGR: 23%) 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. Robust growth in H1FY23 implies that even if remaining quarters show no growth, jewellery division will still exit FY23 with 30%+ growth
- Over the longer term Titan aspires to grow jewellery revenues by 2.5x by FY27 (implied CAGR: 20% from FY22 base). The company generated positive operating cashflows during H1FY23 (₹ 761 crore) and continues to have robust cash and investment worth ₹ 1600+ crore. It also accelerated capex in H1FY23 with investments of ₹ 174 crore (H1FY22: ₹ 91 crore). **We introduce FY25E estimates and bake in revenue and earnings CAGR of 23% and 30%, respectively, in FY22-25E. We reiterate BUY with a revised target price of ₹ 3240 (66x P/E on average of FY24-25E EPS, earlier TP: ₹ 3080)**

Q2FY23 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 slower growth compared to high value products. Also, generally majority of the new Tanishq customers buy entry level products. However, during the quarter, the company did witness strong traction towards high value jewellery on part of new buyers
- On the trend in the diamond pricing front, the management highlighted that the diamond prices have stopped rising and higher caratage diamonds were witnessing a bit of softening. The supply side for diamonds still remains constrained. However, the management indicated that it does not expect prices to rise from current levels
- The management highlighted that the stores opened in the Gulf region were performing well and many Indian franchisee partners were willing to open franchise stores in the Gulf region. Also, the company is in talks with others who are interested in operating franchisee jewellery stores of Titan
- On enhancing the international retail footprint, the management indicated that it has aggressive plans of store opening in GCC countries. The company currently has four international stores. Titan is aiming to open 20 international stores in FY23. The international stores have performed well and as per management expectations on several operational parameters. Currently, international stores are operating at ₹ 80-100 crore annual sales per store
- On the regional performance of jewellery segment, over the last three years southern and eastern India have gained strong traction
- The strong margin in jewellery segment in Q2FY23 was aided by one offs of custom duty benefit and low cost diamond inventory. The company highlighted that the margin had a one off benefit of ~ 200 bps. On a steady state basis, Titan is aiming to maintain an EBIT margin of ~13% in the jewellery segment
- On the store addition front, the management indicated they were aggressively planning to expand the retail footprint. The company is aiming to open 35-40 (14 opened in H1) Tanishq stores in FY23. Also, Titan has added 24 Mia stores in H1FY23 and 20 Carat Lane stores during the period. For both Mia and Carat lane the company is planning to open ~ 60-70 stores in FY23. It is also significantly expanding its existing Tanishq store networks by ~40-45% (~2000 sq ft)
- The management highlighted that its subsidiary Carat Lane would not require primary equity infusion in the near future and is able to borrow from banks. Carat Lane currently has a working capital loan of ~ ₹ 400 crore
- The management indicated that it is difficult to gauge the benefit of compulsory gold hallmarking for organised players like Titan. The market has got used to hallmarking and is doing it. Some small jewellers may be facing difficulties due to increased cost of compliance

Watches division and others

- The watches division continued its robust growth trajectory on the back of healthy growth across channels and brands. High priced products witnessed higher growth compared to the economy segment. The management indicated that it was planning aggressive growth in the watches and wearables segment
- The watches segment reported an EBIT margin of 14.8%, 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 had renovated 28 Titan World store during Q1FY23, which aided Titan World channel to post significantly higher growth than the overall division in Q2FY23
- Revenues from lenses grew faster compared to frames and sunglasses. The eyewear division added 38 new stores during the quarter taking the total count to 827 stores

Exhibit 1: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	9163.0	8800.4	7493.0	22.3	9443.0	-3.0	Sales include gold bullion worth ₹ 482 crore (Q2FY22: ₹ 192 crore). Excluding gold bullion sales, revenue grew at an impressive 3-year CAGR of 23%
Raw Material Expense	6,630.0	6,465.0	5,618.0	18.0	7,038.0	-5.8	Gross margins expansion (up 260 bps YoY to 27.6%) on account of inventory gains on diamond and improvement in share of studded ratio (up 200 bps YoY)
Employee Expenses	392.0	393.7	317.0	23.7	387.0	1.3	
Advertising Expenses	224.0	192.5	135.0	65.9	218.0	2.8	Marketing spends continued to be at higher levels of 2.4% as percentage to revenues (Q2FY22: 1.8%, Q1FY23: 2.3%).
Other Expenses	670.0	612.4	455.0	47.3	604.0	10.9	
EBITDA	1,247.0	1,136.8	968.0	28.8	1,196.0	4.3	3-year EBITDA CAGR: 34%
EBITDA Margin (%)	13.6	12.9	12.9	69 bps	12.7	94 bps	
Depreciation	106.0	107.1	104.0	1.9	103.0	2.9	
Interest	60.0	66.3	51.0	17.6	65.0	-7.7	
Other Income	61.0	58.9	55.0	10.9	44.0	38.6	
PBT before Exceptional item	1,142.0	1,022.2	868.0	31.6	1,072.0	6.5	
Exceptional Item	0.0	0.0	0.0		0.0		
PBT	1,142.0	1,022.2	868.0	31.6	1,072.0	6.5	
Tax Outgo	307.0	257.3	227.0	35.2	282.0	8.9	
PAT	835.0	764.9	641.0	30.3	790.0	5.7	3-year PAT CAGR: 39%

Key Metrics

Jewellery

Revenues (₹ Crore)	7,997.0	7,662.0	6,571.0	21.7	8,351.0	-4.2	SSSG: 11%, Retail sales growth: 15%
Segment EBIT Margin (%)	13.6	NA	12.2	138 bps	12.6	101 bps	

Watches

Revenues (₹ Crore)	830.0	826.8	689.0	20.5	786.0	5.6	
Segment EBIT Margin (%)	14.7	NA	13.1	164 bps	12.5	223 bps	

Source: Company, ICICI Direct Research

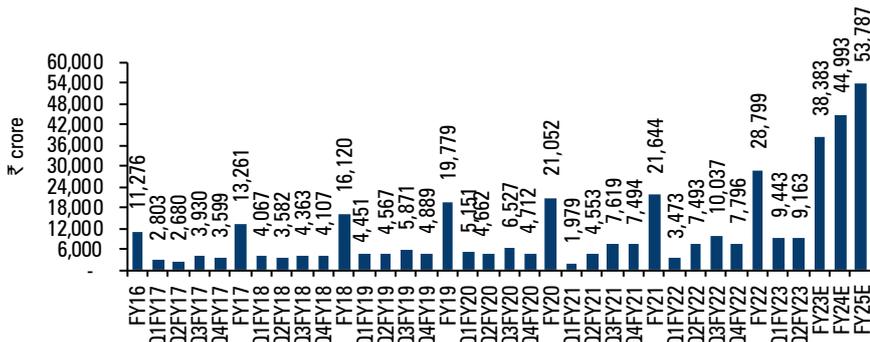
Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E
	Old	New	% Change	Old	New	% Change	Introduced
Revenue	37,362.0	38,383.4	2.7	44,503.1	44,993.1	1.1	53,787.3
EBITDA	4,515.6	4,759.8	5.4	5,628.8	5,691.6	1.1	6,800.2
EBITDA Margin (%)	12.1	12.4	31 bps	12.6	12.6	0 bps	12.6
PAT	3,097.1	3,263.7	5.4	3,903.3	3,949.6	1.2	4,766.0
EPS (₹)	34.9	36.8	5.4	44.0	44.5	1.1	53.7

Source: Company, ICICI Direct Research

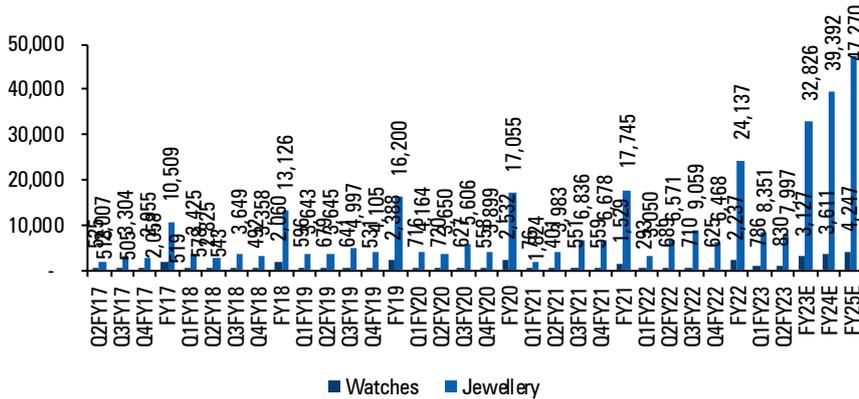
Financial story in charts

Exhibit 3: Revenue trend



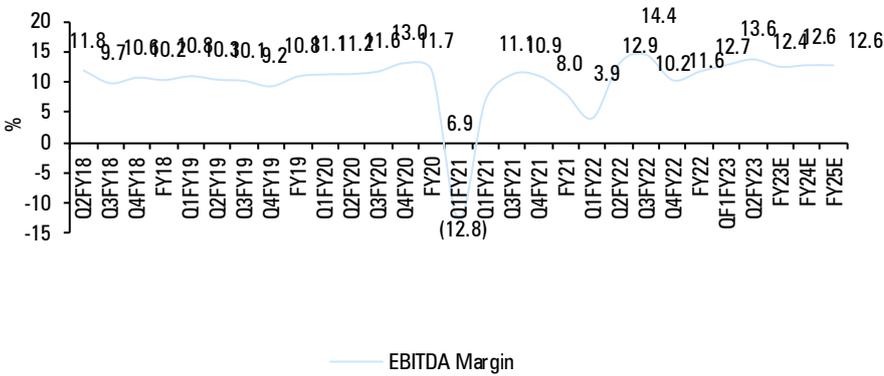
Source: Company, ICICI Direct Research

Exhibit 4: Divisional performance (revenue)



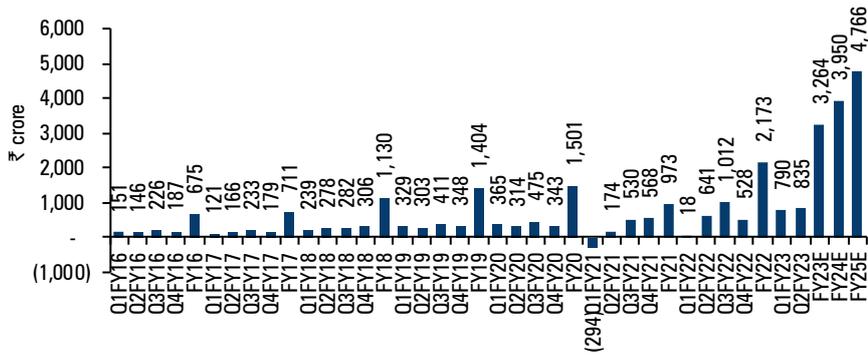
Source: Company, ICICI Direct Research

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)	(%)	(%)
FY21	21,644.0	2.8	11.0	-35.2	252.7	140.8	13.0	17.6
FY22	28,799.0	33.1	24.5	123.3	113.2	73.2	23.4	30.0
FY23E	38,383.4	33.3	36.8	50.2	75.3	51.5	27.4	36.4
FY24E	44,993.1	17.2	44.5	21.0	62.3	42.9	26.6	35.1
FY25E	53,787.3	19.5	53.7	20.7	51.6	35.7	26.6	34.0

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement					
	₹ crore				
(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Total operating Income	21,644.0	28,799.0	38,383.4	44,993.1	53,787.3
Growth (%)	2.8	33.1	33.3	17.2	19.5
Raw Material Expenses	16,414.0	21,641.0	28,327.0	33,024.9	39,479.9
Employee Expenses	1,065.0	1,349.0	1,658.2	1,979.7	2,334.4
Mfg, Admin & selling Exps	2,441.0	2,468.0	3,638.5	4,296.9	5,172.9
Total Operating Expenditure	19,920.0	25,458.0	33,623.6	39,301.5	46,987.2
EBITDA	1,724.0	3,341.0	4,759.8	5,691.6	6,800.2
Growth (%)	-30.1	93.8	42.5	19.6	19.5
Depreciation	375.0	399.0	419.9	458.1	524.8
Interest	203.0	218.0	245.7	270.8	278.4
Other Income	186.0	234.0	269.1	317.5	374.7
PBT	1,332.0	2,958.0	4,363.3	5,280.2	6,371.6
Exceptional items*	0.0	54.0	0.0	0.0	0.0
Total Tax	353.0	706.0	1,099.6	1,330.6	1,605.6
Share of JV/Minority int	-6.0	-25.0	0.0	0.0	0.0
PAT	973.0	2,173.0	3,263.7	3,949.6	4,766.0
Growth (%)	-35.2	123.3	50.2	21.0	20.7
EPS (₹)	11.0	24.5	36.8	44.5	53.7

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement					
	₹ crore				
(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
PAT	973.0	2,173.0	3,263.7	3,949.6	4,766.0
Add: Depreciation	375.0	399.0	419.9	458.1	524.8
Add: Finance Cost	203.0	218.0	245.7	270.8	278.4
(Inc)/dec in Current Assets	-230.6	-6,087.0	-4,295.2	-2,942.9	-4,615.2
Inc/(dec) in CL and Provisions	2,616.4	2,457.0	1,237.6	1,213.4	2,429.6
Others	215.1	0.0	0.0	0.0	0.0
CF from operating activities	4,151.8	-840.0	871.7	2,949.1	3,383.6
(Inc)/dec in Investments	-2,666.1	2,553.0	-5.9	-9.0	-9.3
(Inc)/dec in Fixed Assets	-111.9	-201.0	-320.0	-320.0	-320.0
(Inc)/dec in CWIP	-13.8	-53.0	25.5	17.9	12.5
Others	40.6	-72.0	-50.0	0.0	0.0
CF from investing activities	-2,751.1	2,227.0	-350.4	-311.2	-316.8
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-557.9	353.0	-484.6	-3.3	-3.0
Less: Finance Cost	-203.0	-218.0	-245.7	-270.8	-278.4
Dividend Paid	-355.1	-366.5	-665.0	-987.4	-1,191.5
Others	-106.6	-142.0	-177.6	-172.5	-207.0
CF from financing activities	-1,222.6	-373.5	-1,572.9	-1,434.1	-1,679.9
Net Cash flow	178.1	1,013.5	-1,051.6	1,203.8	1,386.9
Opening Cash	381.2	559.3	1,572.8	521.1	1,724.9
Closing Cash	559.3	1,572.8	521.1	1,724.9	3,111.8

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet					
	₹ crore				
(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Liabilities					
Equity Capital	88.8	88.8	88.8	88.8	88.8
Reserve and Surplus	7,407.5	9,214.0	11,812.7	14,775.0	18,349.4
Total Shareholders funds	7,496.3	9,302.8	11,901.5	14,863.7	18,438.2
Total Debt	165.0	518.0	33.4	30.0	27.0
Deferred Tax Liability	(97.0)	(181.0)	(181.0)	(170.4)	(157.7)
Other long term liabilities	1,261.0	1,389.0	1,389.3	1,389.6	1,389.9
Total Liabilities	8,825.3	11,028.8	13,143.2	16,112.9	19,697.5
Assets					
Gross Block	2,128.0	2,282.0	2,602.0	2,922.0	3,242.0
Less: Accu Depreciation	669.0	835.0	1,077.0	1,351.7	1,656.4
Net Block	1,459.0	1,447.0	1,525.0	1,570.3	1,585.6
Capital WIP	32.0	85.0	59.5	41.7	29.2
Goodwill on Consolidation	123.0	123.0	123.0	123.0	123.0
Total Fixed Assets	1,614.0	1,655.0	1,707.5	1,735.0	1,737.8
Investments	2,848.0	295.0	300.9	309.9	319.2
Inventory	8,408.0	13,609.0	17,351.4	19,723.0	23,578.0
Debtors	366.0	565.0	631.0	739.6	884.2
Loans and Advances	1,513.0	2,200.0	2,686.8	3,149.5	3,765.1
Other Current Assets	-	-	-	-	-
Cash	559.3	1,572.8	521.1	1,724.9	3,111.8
Total Current Assets	10,846.3	17,946.8	21,190.4	25,337.0	31,339.1
Creditors	4,999.0	6,692.0	8,202.5	9,368.4	11,199.6
Other Current Liabilities	2,336.0	3,050.0	2,840.4	2,834.6	3,388.6
Provisions	186.0	236.0	172.7	226.0	270.4
Total Current Liabilities	7,521.0	9,978.0	11,215.6	12,429.0	14,858.6
Net Current Assets	3,325.3	7,968.8	9,974.8	12,908.0	16,480.5
Others Non Current Assets	1,038.0	1,110.0	1,160.0	1,160.0	1,160.0
Application of Funds	8,825.3	11,028.8	13,143.2	16,112.9	19,697.5

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios					
(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Per share data (₹)					
EPS	11.0	24.5	36.8	44.5	53.7
Cash EPS	15.3	29.3	41.5	49.6	59.6
BV	84.4	104.8	134.1	167.4	207.7
DPS	4.0	4.0	7.5	11.1	13.4
Cash Per Share	6.3	17.7	5.9	19.4	35.1
Operating Ratios					
EBITDA Margin (%)	8.0	11.6	12.4	12.6	12.6
PBT Margin (%)	6.2	10.3	11.4	11.7	11.8
PAT Margin (%)	4.5	7.6	8.5	8.8	8.9
Inventory days	141.8	172.5	165.0	160.0	160.0
Debtor days	6.2	7.2	6.0	6.0	6.0
Creditor days	84.3	84.8	78.0	76.0	76.0
Return Ratios (%)					
RoE	13.0	23.4	27.4	26.6	25.8
RoCE	17.6	30.0	36.4	35.1	34.0
RoIC	31.7	37.0	39.1	36.0	34.6
Valuation Ratios (x)					
P/E	252.7	113.2	75.3	62.3	51.6
EV / EBITDA	140.8	73.2	51.5	42.9	35.7
EV / Net Sales	11.2	8.5	6.4	5.4	4.5
Market Cap / Sales	11.4	8.5	6.4	5.5	4.6
Price to Book Value	32.8	26.4	20.7	16.5	13.3
Solvency Ratios					
Debt/EBITDA	0.1	0.2	0.0	0.0	0.0
Debt / Equity	0.0	0.1	0.0	0.0	0.0
Current Ratio	1.4	1.8	1.9	2.0	2.1
Quick Ratio	0.3	0.4	0.3	0.5	0.5

Source: Company, ICICI Direct Research

RATING RATIONALE

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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