

# Titan Company

BSE SENSEX  
61,799

S&P CNX  
18,415

**CMP: INR2,483 TP: INR2,910 (+17%)**

**Buy**



## Stock Info

Bloomberg	TTAN IN
Equity Shares (m)	888
M.Cap.(INRb)/(USDb)	2240.2 / 27.1
52-Week Range (INR)	2790 / 1827
1, 6, 12 Rel. Per (%)	-5/2/2
12M Avg Val (INR M)	3491

## Financials Snapshot (INR b)

Y/E Mar	2022	2023E	2024E
Sales	288.0	383.4	453.8
Sales Gr. (%)	33.1	33.1	18.4
EBITDA	34.2	50.0	59.0
EBITDA (%)	11.9	13.0	13.0
Adj. PAT	23.3	33.0	38.3
Adj. EPS (INR)	26.2	37.0	43.1
EPS Gr. (%)	137.8	41.2	16.2
BV/Sh. (INR)	105.1	131.5	162.6

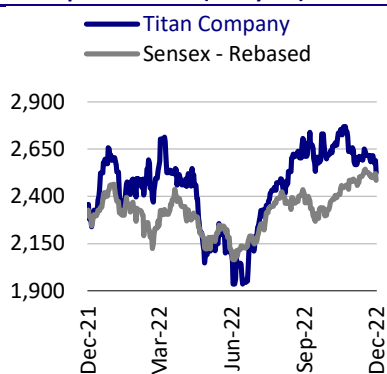
## Ratios

RoE (%)	27.7	31.4	29.4
RoCE (%)	25.2	29.0	27.9
Payout (%)	28.6	20.0	28.0

## Valuations

P/E (x)	94.7	67.0	57.7
P/BV (x)	23.6	18.9	15.3
EV/EBITDA (x)	64.0	44.0	37.2
Div Yield (%)	0.3	0.3	0.5

## Stock's performance (one-year)



## Well set to achieve its five-year targets

We met with the management of TTAN to gauge the progress of its strategic targets (as highlighted in its May'22 investor meet).

- Growth across segments has begun well for TTAN to meet its five-year targets as announced during its Investor day in [May'22](#).
- Tanishq is performing extremely well. The management has deliberately taken a value focused approach, which is serving them well. Interestingly, it did not pass on the entire effective import duty increase of ~4.25% in Jul'22 to customers.
- In Jewelry, apart from Tanishq (core), there is a lot of excitement around Zoya (their luxury brand) and brands like CaratLane and Mia at lower price points (~INR25,000). Jewelry purchases in these brands are no longer occasion-led and annual demand can even be as high as five-to-six times.
- In Jewelry, despite a change in the geographical mix, the management said there is a good possibility that the proportion of Studded sales will be back to pre-COVID levels. Adoption of Studded is rising even within Wedding Jewelry. South India, where TTAN has made successful inroads in recent years, is a relatively lower Studded market. The proportion of Studded sales in South India is still healthy at 25-26% v/s early to mid-30 levels for the rest of India.
- The Wearables business will be a critical driver of the targeted 20% CAGR in the Watches and Wearables segment. While TTAN was a late entrant in the Wearables business, the category is growing rapidly, with a strong innovation pipeline, led by strong domain experts hired for the Wearables business. The management has found a critical white space between super premium Wearables, led by global MNCs like Apple and Fitbit, and the cheaper options met by Chinese imports. Product returns from customers have reduced significantly.
- While the healthy growth in overall revenue and earnings in the preceding five years is likely to continue over the next five years, the management indicated that expansion in return ratios is unlikely to be sharp in the first few years due to higher upfront investments. We had highlighted the Balance Sheet as one of the key monitorables in [our detailed note](#) in Oct'22. Inventory days in the past couple of years have been higher than usual, partly due to the loss of sales for a few months in both years, but the management is hopeful that inventory days will return to pre-COVID levels by FY24 (and not FY23 as we were assuming earlier).

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

### Valuation and view

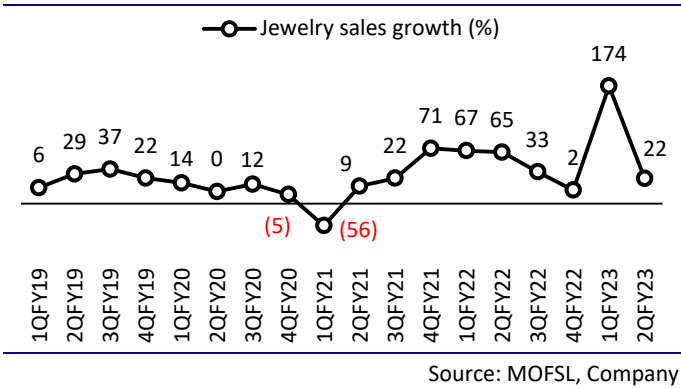
While there is no change to our forecasts up to the EBITDA level, there has been a reduction of ~3%/5% in our FY23/FY24 EPS as a result of higher asset intensity in the initial years of the five-year growth plan. TTAN remains an attractive investment case in the largecap Consumption space in India, with strong earnings growth visibility and compounding ~20% for an elongated period of time. In the Jewelry industry, which is seeing a wave of formalization, TTAN is clearly at the vanguard among organized players in leading this growth. Its runway for growth is long, with a market share of less than 10%. Unlike other high growth categories, the competitive intensity from organized and unorganized peers in Jewelry is considerably weaker. Aside of our expectation of possibly slower growth in 3QFY23 on a very high base in the Jewelry business, there are no concerns beyond that, especially with the geopolitical situation stabilizing. Expensive valuations in the near term will be burnished by its rapid pace of growth. We maintain our **Buy** rating with a TP of INR2,910 (60x Sep'24 EPS).

### Jewelry

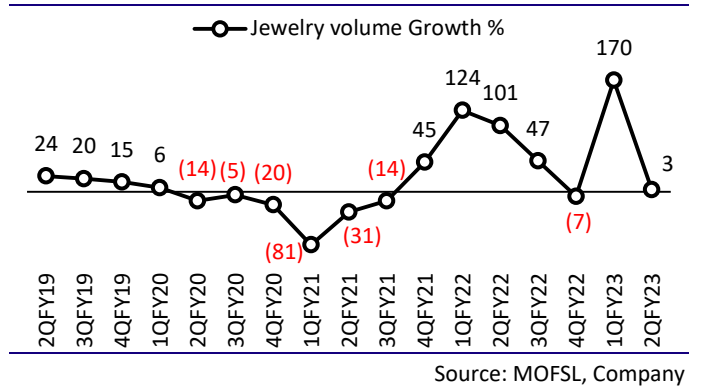
- The Jewelry business posted a healthy growth in 1HFY23. We remain confident that TTAN will deliver on its 2.5x growth target in this segment over the next five years, led by, a) the immense opportunity (less than 10% market share), and b) established track record of achieving such targets in the past, largely driven by their own efforts and favorable tailwinds for organized players recently.
- Apart from Tanishq (core), there is a lot of excitement around Zoya (their luxury brand) and brands like CaratLane and Mia at lower price points (~INR25,000). Jewelry purchases in these brands are no longer occasion-led and annual demand can even be as high as 5-6x a year.
- Mia used to be an exclusively store in store (SIS) earlier, but the company is now opening dedicated outlets for this brand as well.
- Zoya has found a significant niche as a luxury brand. It is seeing strong enough traction to expand its dedicated store footprint to 15 from six over the next three-to-four years, apart from contributing healthy sales in SIS outlets.
- Endless aisle and digital sales now constitute 10-11% of total sales and is a healthy contributor to Jewelry sales.
- TTAN's omnichannel strategy is working very well in businesses like CaratLane, where even though 80% of sales are birthed online, but 70% of the billing is now done at the store level.
- Along with international expansion, international e-commerce will also be an important driver of sales. TTAN opened its first store in the US recently. The fact that the Indian diaspora resides in all 50 states in the US which offers it an opportunity to grow through the e-commerce route in many states, where they will not have a physical store.
- The international business is expected to contribute 2-3% of Jewelry sales over the next one-to-two years. Moreover, it will not be RoI dilutive. Expansion in the international business will be through the L2 franchisee format, set up by close acquaintances of the company's existing franchisees in India.

- Tanishq is performing extremely well. The management has deliberately taken a value focused approach, which is serving them well. Interestingly, it did not pass on the entire effective import duty increase of ~4.25% in Jul'22 to the customer.
- Despite a change in the geographical mix, the management said there is a good possibility that the proportion of Studded sales will be back to pre-COVID levels. Adoption of Studded is increasing even within Wedding Jewelry. South India, where TTAN has made successful inroads in recent years, is a relatively lower Studded market. The proportion of Studded sales in South India is still healthy at 25-26% v/s early to mid-30 levels for the rest of India.
- The regionalization of Wedding Jewelry is working very well. With the success of the 'Bride of Patna' range two-to-three years ago, TTAN expanded this process to 16 cities.
- TTAN clocked robust sales in Dhanteras, Navratri, and Diwali. The wedding season is also showing early signs of traction. The management in its analysts concall after the 2QFY23 result was hesitant to call out the strong growth in Jewelry during the quarter, which, we believe, is because of an extremely high base in Wedding Jewelry in 3QFY21 and 3QFY22, where wedding jewelry received a boost, especially as other spending avenues for this occasion, i.e. catering and travel, were severely restricted in these two quarters. We are not changing our mid-single digit Jewelry sales growth expectation for 3QFY23.
- From a medium-term perspective, Wedding Jewelry will continue to be a key driver of growth behind TTAN's Jewelry segment. Its share of Wedding Jewelry in overall Jewelry revenue is still 18-20% v/s the industry average of 55-60%.

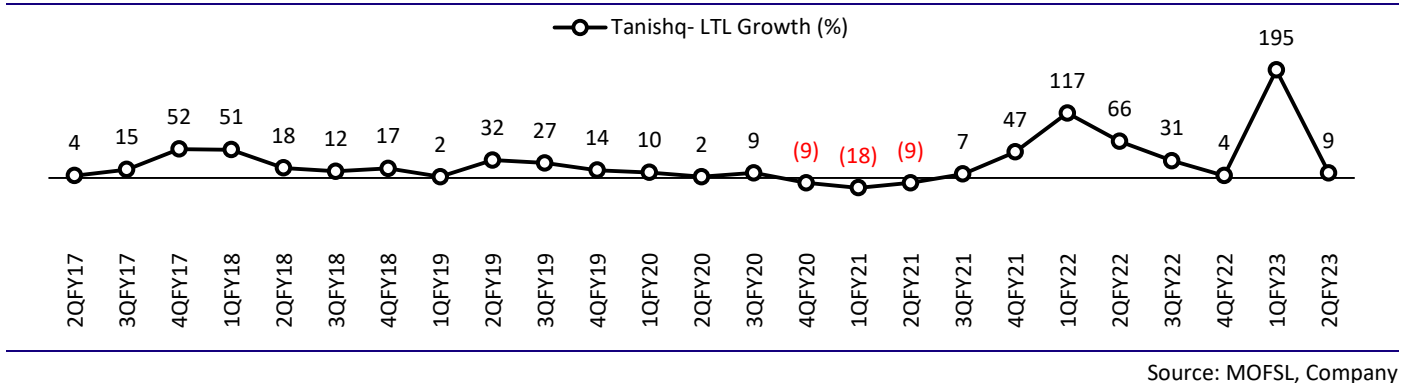
**Exhibit 1: The Jewelry business clocks robust sales growth in 2QFY23...**



**Exhibit 2: ...while volume growth was subdued**



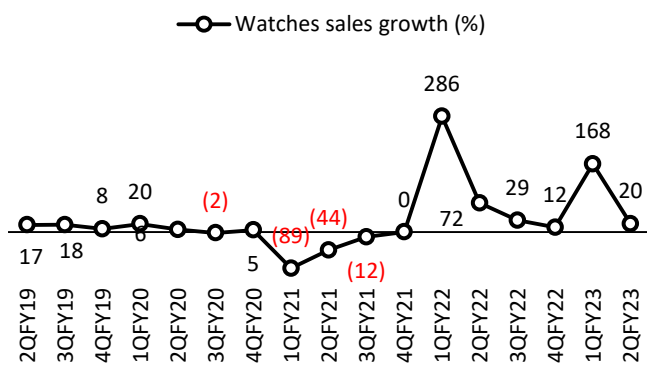
**Exhibit 3: Tanishq posts a LTL growth of 9% YoY in 2QFY23**



## Watches and Wearables

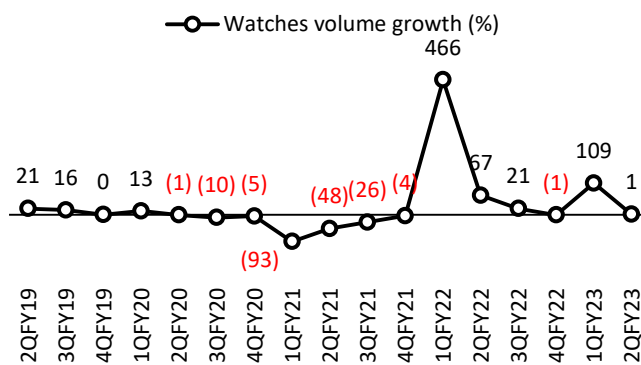
- The Watches and Wearables business is now delivering as per its expectations. At its Analyst Day in May'22, the management shared its vision for the Watches and Wearables business, which is similar to the targets of the Jewelry business (2.5x growth over the next five years equating to ~20% CAGR). This, despite its track record of mid-single digit sales growth in this segment in the last decade.
- In 1HFY23, this business grew by ~65% YoY, aided by a soft COVID-led base in 1QFY22. Nevertheless, sales growth of ~20% YoY in the Watches and Wearables business in 2QFY23 was encouraging. We believe TTAN is poised to deliver sales of ~INR31.6b from this segment in FY23. This means that its target to achieve the stated vision for the remaining four years will be ~16.7% CAGR.
- The Wearables business will be a critical component of targeted growth in the Watches and Wearables segment. While TTAN was a late entrant in the Wearables business, the category is growing rapidly, with a strong innovation pipeline, led by strong domain experts hired for the Wearables business.
- The management has found a critical white space between super premium Wearables, led by global MNCs like Apple and Fitbit, and the cheaper options met by Chinese imports. Product returns from customers have reduced significantly.
- In the traditional Watches sub-segment, the current growth driver is premiumization, especially in the mechanical business, which is led by variants of the 'Edge' platform. Sonata, the lower price variant category, is facing some headwinds at present on account of the ongoing slowdown in demand outside the top and middle income customers caused by persistently high inflation.
- While growth in the Watches and Wearables segment has been impressive in 1HFY23, the management feels this needs to be sustained, and that it will be 12-18 months before they can be completely sure that the path towards its 2.5x growth vision in this segment will be achieved.

Exhibit 4: Watches division clocks healthy revenue growth...



Source: MOFSL, Company

Exhibit 5: ...with flat volume growth YoY in 2QFY23



Source: MOFSL, Company

## Taneira

- The management expects Taneira to do an encore of what Tanishq did to the jewelry market in sarees. However, they do not expect long-term sales from this business to match current Jewelry sales.
- Taneira received a setback due to the COVID-led lockdown restrictions, leading it to make a fresh start, but customers are now back.
- The consistent supply of 'authentic natural fiber' in a market where there is a trust deficit is an important pillar of Taneira's long-term growth.
- Interestingly, the company is extensively creating '*weavershalas*', which are similar to the '*karigar park*' initiative that boosted jewelry sales.

## Financial highlights

- The management is hopeful that inventory days will return to FY20 levels by FY24. Inventory days were higher than usual in recent years partly as a result of lost sales in 1QFY22 and 1QFY21 due to the COVID-19 pandemic.
- Incrementally, 10-12% of stores will be L1 (company operated), 47-48% will be L2 (franchisee operated, but inventory aided by the company), and ~40% will be L3 (franchisee operated, with inventory risk borne by them). L1 and L2 stores generally require a higher inventory.
- From a sales perspective, own stores will contribute 26-28% to total sales, despite only 10-12% of incremental stores, as these are its flagship stores.
- It is unlikely that they will require any additional material borrowing to achieve a sales growth of 15-20%.
- RoCE and margin in the Jewelry business are unlikely to grow sharply from current levels, due to investments being made over the next two-to-three years. However, beyond this period, RoCE is likely to improve.

### Exhibit 6: Inventory days to gradually return back to FY20 levels

Inventory days	FY19	FY20	FY21	FY22	FY23E	FY24E
On average basis	120	131	139	140	141	140
On a year-end basis	130	140	142	172	153	150

Source: MOFSL, Company

## Financials and valuation

Income Statement							(INR b)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Net Sales</b>	<b>161.2</b>	<b>197.8</b>	<b>210.5</b>	<b>216.4</b>	<b>288.0</b>	<b>383.4</b>	<b>453.8</b>
Change (%)	21.6	22.7	6.4	2.8	33.1	33.1	18.4
<b>Gross Profit</b>	<b>44.3</b>	<b>53.8</b>	<b>59.0</b>	<b>52.3</b>	<b>71.6</b>	<b>103.4</b>	<b>122.7</b>
Margin (%)	27.5	27.2	28.0	24.2	24.9	27.0	27.0
Other expenditure	27.9	33.9	34.0	35.1	37.4	53.4	63.7
<b>EBITDA</b>	<b>16.4</b>	<b>19.9</b>	<b>24.9</b>	<b>17.2</b>	<b>34.2</b>	<b>50.0</b>	<b>59.0</b>
Change (%)	42.3	21.1	25.1	-30.8	98.5	46.1	17.9
Margin (%)	10.2	10.1	11.8	8.0	11.9	13.0	13.0
Depreciation	1.3	1.6	3.5	3.8	4.0	4.5	5.2
Int. and Fin. Charges	0.5	0.5	1.7	2.0	2.2	2.7	3.2
Other Income - Recurring	0.9	1.8	1.5	1.9	2.3	1.3	0.7
<b>Profit before Taxes</b>	<b>15.5</b>	<b>19.6</b>	<b>21.3</b>	<b>13.3</b>	<b>30.4</b>	<b>44.1</b>	<b>51.2</b>
Change (%)	43.7	26.5	8.8	-37.5	128.2	45.0	16.2
Margin (%)	9.6	9.9	10.1	6.2	10.6	11.5	11.3
Tax	4.5	6.1	5.8	3.6	7.9	11.1	12.9
Deferred Tax	0.2	0.5	-0.4	0.1	0.8	0.0	0.0
Tax Rate (%)	27.6	29.0	28.9	26.5	23.2	25.2	25.2
<b>Profit after Taxes</b>	<b>11.2</b>	<b>13.9</b>	<b>15.2</b>	<b>9.8</b>	<b>23.3</b>	<b>33.0</b>	<b>38.3</b>
Change (%)	39.9	24.0	8.9	-35.4	138.4	41.2	16.2
Margin (%)	7.0	7.0	7.2	4.5	8.1	8.6	8.4
Extraordinary income	-167	0	-185	0	-1,360	0	0
<b>Reported PAT</b>	<b>11.0</b>	<b>13.9</b>	<b>14.9</b>	<b>9.7</b>	<b>22.0</b>	<b>33.0</b>	<b>38.3</b>

Balance Sheet							(INR b)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share Capital	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Preference Share Capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserves	50.0	60.0	65.8	74.1	92.4	115.8	143.4
<b>Net Worth</b>	<b>50.9</b>	<b>60.8</b>	<b>66.7</b>	<b>75.0</b>	<b>93.3</b>	<b>116.7</b>	<b>144.3</b>
Loans	0.8	0.3	7.2	1.7	5.2	0.5	0.3
Lease liabilities	0.0	0.0	12.4	12.6	13.6	15.6	17.6
Deferred Tax	-0.3	-0.7	-1.5	-1.0	-1.8	-1.8	-1.8
<b>Capital Employed</b>	<b>51.3</b>	<b>60.5</b>	<b>84.9</b>	<b>88.3</b>	<b>110.3</b>	<b>131.0</b>	<b>160.4</b>
Gross Block	13.4	15.4	17.7	18.2	22.0	25.9	30.0
Less: Accum. Deprn.	2.1	3.3	4.6	5.8	9.8	14.3	19.6
<b>Net Fixed Assets</b>	<b>11.2</b>	<b>12.1</b>	<b>13.1</b>	<b>12.4</b>	<b>12.2</b>	<b>11.5</b>	<b>10.4</b>
Intangibles	3.5	3.6	4.0	3.8	3.7	3.7	3.7
Capital WIP	0.4	0.3	0.1	0.2	0.7	0.7	0.7
Right of use asset	0.0	0.0	9.3	9.2	9.7	9.7	9.7
Investments	0.0	0.7	1.1	28.1	2.8	0.6	0.6
<b>Curr. Assets, L&amp;A</b>	<b>79.7</b>	<b>99.7</b>	<b>106.3</b>	<b>109.9</b>	<b>181.0</b>	<b>202.5</b>	<b>249.6</b>
Inventory	59.2	70.4	81.0	84.1	136.1	160.8	187.0
Account Receivables	3.0	4.2	3.1	3.7	5.7	7.9	9.3
Cash and Bank Balance	6.5	11.1	4.3	5.8	15.9	1.2	10.7
Others	11.0	14.1	17.9	16.3	23.4	32.7	42.5
<b>Curr. Liab. and Prov.</b>	<b>43.5</b>	<b>55.9</b>	<b>49.0</b>	<b>75.2</b>	<b>99.8</b>	<b>97.7</b>	<b>114.4</b>
Current Liabilities	41.9	53.9	46.1	73.4	97.4	95.1	111.5
Provisions	1.6	2.1	2.9	1.9	2.4	2.6	2.9
<b>Net Current Assets</b>	<b>36.2</b>	<b>43.8</b>	<b>57.2</b>	<b>34.7</b>	<b>81.2</b>	<b>104.8</b>	<b>135.2</b>
Misc. Expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>51.3</b>	<b>60.5</b>	<b>84.9</b>	<b>88.3</b>	<b>110.3</b>	<b>131.0</b>	<b>160.4</b>

E: MOFSL Estimates

## Financials and valuation

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Basic (INR)</b>							
<b>EPS</b>	<b>12.6</b>	<b>15.7</b>	<b>17.1</b>	<b>11.0</b>	<b>26.2</b>	<b>37.0</b>	<b>43.1</b>
Cash EPS	14.0	17.3	18.9	12.9	30.8	42.3	49.0
BV/Share	57.3	68.5	75.2	84.5	105.1	131.5	162.6
DPS	4.6	6.0	4.1	4.0	7.5	7.4	12.1
Payout %	36.4	38.5	23.8	36.5	28.6	20.0	28.0

### Valuation (x)

P/E	196.6	158.5	145.5	225.2	94.7	67.0	57.7
Cash P/E	177.2	143.3	131.6	192.5	80.7	58.8	50.6
EV/Sales	13.6	11.1	10.5	10.0	7.6	5.7	4.8
EV/EBITDA	133.7	110.1	88.5	126.0	64.0	44.0	37.2
P/BV	43.3	36.2	33.0	29.4	23.6	18.9	15.3
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.3	0.3	0.5

### Return Ratios (%)

RoE	24.0	24.9	23.8	13.8	27.7	31.4	29.4
RoCE	24.7	25.5	22.5	13.0	25.2	29.0	27.9
RoIC	29.8	28.0	23.9	14.8	32.0	31.0	29.0

### Working Capital Ratios

Debtor (Days)	7	8	5	6	7	8	8
Asset Turnover (x)	3.1	3.3	2.5	2.5	2.6	2.9	2.8

### Leverage Ratio

Debt/Equity (x)	0.0	0.0	0.1	0.0	0.1	0.0	0.0
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### Cash Flow Statement

(INR b)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(loss) before Tax	15.3	19.6	21.0	13.3	29.0	44.1	51.2
Int./Div. Received	-0.1	1.1	-0.2	-0.6	-1.3	-1.3	-0.7
Deferred Revenue Exp.	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation & Amort.	1.3	1.6	3.5	3.8	4.0	4.5	5.2
Interest Paid	-0.1	-0.5	0.7	1.4	1.2	2.7	3.2
Direct Taxes Paid	4.6	6.4	5.6	2.7	8.0	11.1	12.9
Incr in WC	12.4	3.0	22.7	-26.2	32.2	38.3	20.9
<b>CF from Operations</b>	<b>-0.5</b>	<b>12.4</b>	<b>-3.3</b>	<b>41.4</b>	<b>-7.2</b>	<b>0.6</b>	<b>25.2</b>
Incr in FA	3.0	2.6	3.5	1.4	2.2	3.9	4.1
<b>Free Cash Flow</b>	<b>-3.5</b>	<b>9.8</b>	<b>-6.9</b>	<b>40.0</b>	<b>-10.8</b>	<b>-3.3</b>	<b>21.1</b>
Investments	-4.1	0.2	-3.2	27.3	-16.4	-2.2	0.1
Others	-0.3	0.2	0.6	-1.0	-8.5	0.9	2.1
<b>CF from Invest.</b>	<b>1.4</b>	<b>-3.0</b>	<b>-1.1</b>	<b>-27.7</b>	<b>21.4</b>	<b>-2.6</b>	<b>-6.3</b>
Issue of Shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Incr in Debt	0.0	0.0	6.9	-5.6	3.4	-4.7	-0.3
Dividend Paid	2.8	4.0	5.4	3.6	3.6	6.7	6.0
Others	-0.2	0.9	4.0	3.2	3.9	2.7	3.2
<b>CF from Fin. Activity</b>	<b>-2.5</b>	<b>-4.9</b>	<b>-2.4</b>	<b>-12.3</b>	<b>-4.0</b>	<b>-14.1</b>	<b>-9.4</b>
<b>Incr/Decr of Cash</b>	<b>-1.6</b>	<b>4.5</b>	<b>-6.8</b>	<b>1.4</b>	<b>10.1</b>	<b>-16.1</b>	<b>9.5</b>
Add: Opening Balance	8.2	6.5	11.1	4.4	5.8	17.2	1.2
<b>Closing Balance</b>	<b>6.5</b>	<b>11.1</b>	<b>4.3</b>	<b>5.8</b>	<b>15.9</b>	<b>1.2</b>	<b>10.7</b>

E: MOFSL Estimates

NOTES



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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