Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Titan Company Ltd

Soft Q3; Good growth outlook

Consumer Discretionary	Sharekhan code: TITAN

Reco/View: Buy	↔	CMP: **Rs. 2,305**	Price Target: **Rs. 2,950**	↓

↑ 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 Dec 08, 2022

Low Risk

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

Source: Morningstar

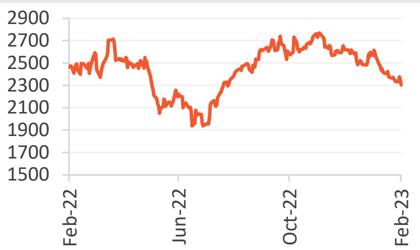
Company details

Market cap:	Rs. 2,04,635 cr
52-week high/low:	Rs. 2,790 / 1,827
NSE volume: (No of shares)	10.8 lakh
BSE code:	500114
NSE code:	TITAN
Free float: (No of shares)	41.8 cr

Shareholding (%)

Promoters	52.9
FII	18.4
DII	11.3
Others	17.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-11.8	-16.8	-4.9	-6.5
Relative to Sensex	-9.6	-15.1	-7.7	-7.1

Sharekhan Research, Bloomberg

Summary

- Titan Company (Titan's) Q3FY2023 was affected by lower-than-expected EBIDTA margins (declined by 276 bps y-o-y) to 11.6%, which led to a 10% y-o-y decrease in PAT. Revenue growth stood at 13%.
- Jewellery demand improved strongly in January 2023 and momentum is expected to sustain led by strong wedding season and higher traction from new customers. Watches and Eyecare divisions are likely to post double-digit revenue growth.
- Q3 was an aberration while EBIDTA margins in jewellery business would remain at 12-13%. Watches business' margins would witness consistent improvement in the coming years. Focus remains on scaling up high-margin emerging business over the next three to four years.
- Stock has corrected by 17% in last two months and trades at 61.9x/52.5x/42.9x its FY2023E/24E/25E earnings. We retain our Buy recommendation on the stock with revised PT of Rs. 2,950.

Titan's Q3FY2023 performance was affected by lower than expected EBIDTA margins resulting in a 10% decline in the PAT. Jewellery business registered moderated growth due to slowdown in traction in November and December. Overall revenue growth (excluding the bullion sales) stood at ~13%. The growth in the key business stood in double digits with the jewellery business (excluding bullion sales) growing by 12.4%, Watches & Wearable business grew by 14.2% and eyecare business grew by 11.5%. Emerging businesses registered growth of 72% y-o-y to Rs. 89 crore. Key subsidiaries such as Caratlane and TEAL registered a growth of 51.3% and 53% to Rs. 677 crore and Rs. 125 crore, respectively. EBIDTA margins decreased by 276 bps y-o-y to 11.6% due to high base of Q3FY2022 on account of higher contribution from studded business and one-time gains. PAT decreased by 10% y-o-y to Rs. 912 crore. For 9MFY2023 revenues grew by 43% y-o-y to Rs. 28,709 crore, EBIDTA margins improved by 42 bps y-o-y to 12.5% and PAT grew by 52% y-o-y to Rs. 2,538 crore. Management is confident of achieving strong growth across key business verticals and scale-up in the new ventures in the medium to long run.

Key positives

- Jewellery retail revenues grew by 15% driven by 9% same-store-sales growth.
- New buyers' contribution for jewellery business increased to 49%.
- Jewellery business market share marginally improved to 6.8%.
- Key subsidiaries such as Caratlane and TEAL registered strong revenue growth of 51.3% and 52.7% y-o-y during the quarter.

Key negatives

- Jewellery business' EBIT margins were down by 173 bps y-o-y to 13.0% affecting overall EBIDTA margins.

Management Commentary

- **Jewellery business:** The company is witnessing strong offtake in gold and studded jewellery despite an increase in gold prices. Growth in January was ahead of 3-year CAGR growth achived in Q3 of 20%. With strong wedding season ahead, the growth momentum in jewellery business is expected to sustain in the coming months.
- **Watches business:** The company saw strong traction in the watches segment and expects double digit revenue growth in Q4. Wearables category continued to gain strong traction. New product contribution in watches and wearable business is 20-22%.
- **Eyecare business:** The business achieved growth of 40% in January 2023 (on 3 years CAGR basis growth is around 37%).
- **EBIDTA margins:** Jewellery business will continue to achieve 12-13% EBIDTA margins; in watches business the company targets 14% EBIDTA margins. Overall consolidated margins will improve gradually.

Revision in estimates – We have reduced our earnings estimates for FY2023 to factor in lower-than-expected EBIDTA margins in Q3FY2023 while we have maintained them for FY2024 and FY2025.

Our Call

View: Retain Buy with a revised price target of Rs. 2,950: Titan's Q3 performance can be considered as aberration and we should see good growth with stable margins in the quarters ahead. The company 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. A strong growth outlook, industry tailwinds in the medium term, and strong balance sheet make it a best play in the retail space. The stock has corrected by 17% in last two months and is currently trading at 61.9x/52.5x/42.9x its FY2023E/24E/25E earnings. We maintain our Buy recommendation on the stock with a revised price target of Rs. 2,950.

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	39,856	44,892	51,918
OPM (%)	8.0	11.6	12.4	12.9	13.5
Adjusted PAT	984	2,238	3,308	3,895	4,773
% Y-o-Y growth	-35.2	-	47.8	17.8	22.5
Adjusted EPS (Rs.)	11.0	25.2	37.3	43.9	53.8
P/E (x)	-	91.4	61.9	52.5	42.9
P/B (x)	27.3	22.0	16.9	13.3	10.4
EV/EBIDTA (x)	-	61.5	41.7	35.5	28.9
RoNW (%)	13.8	26.6	30.9	28.3	27.2
RoCE (%)	17.2	30.5	37.0	36.1	36.1

Source: Company; Sharekhan estimates

Soft Q3 – Revenues grew by 13%+; EBIDTA margins decreased by 276 bps y-o-y

Consolidated revenue grew by 15.7% y-o-y to Rs. 11,609 crore, against our expectation of Rs. 11,342 crore and average street expectation of Rs. 10,864 crore. Excluding bullion sales, revenue grew by 12.8% y-o-y to Rs. 11,167 crore. Revenue of the jewellery business grew by 12.4% y-o-y to Rs.10,131 crore (ex-bullion), while revenue of the watches and eyewear business grew by 14.2% and 11.5% to Rs.811 crore and Rs. 174 crore respectively. Consolidated gross margins improved by 141 bps y-o-y to 23.9%, while EBITDA margin declined 276 bps y-o-y to 11.6% hit by high employee and other expenses and increased ad spends. EBITDA margin came in lower than our and average street expectation of 13.3%-13.7%. EBITDA decreased by 6.6% y-o-y to Rs. 1,347 crore. Reported PAT stood at Rs.912 crore. PAT was lower than our expectation of Rs. 1,028 crore and average street expectation of Rs. 1,034 crore. The company has added (net) 111 stores during the quarter.

Jewellery business growth at 11% y-o-y

The jewellery division grew by 11% y-o-y to Rs. 9,518 crore aided by healthy new buyer growths in the festive period, higher value purchases in the studded category and unique new collections for the season. A healthy festive consumer demand helped domestic retail (secondary) sales clock 15%yoy growth (with 9% same-store-sales growth). Sales were strong during the festive season in October 2022, while the same moderated in November and December2022. Contribution from high-value purchases increased in the overall pie with larger price band registered faster growth as compared to low price band products. The sales from studded category (26% of jewellery sales) moderately outpaced gold jewellery (plain) segment growth compared to Q3FY2022. Wedding sales grew in-line with the division's overall sales. Jewellery business EBIT margins came lower at 13% due to high base of Q3FY2022 due to certain one-offs. Tanishq opened its first international boutique store in USA, New Jersey in December 2022. With this store opening, the international presence now spans 6 stores across Dubai, Abu Dhabi and USA. The new store expansion (net) for the quarter consisted of 8 stores in Tanishq and 14 in Mia by Tanishq, taking the jewellery business store count to 510.

Watches and wearables grew by 14.5% y-o-y; EBIT margins stood at 11%

This division registered a 14.5% y-o-y growth driven by strong traction in the wearables space. A slew of exciting product launches in FY23 leading to the festive season contributed well to more than tripling sales from the wearables sub-segment. Fasttrack brand's growth significantly outstripped that of the Division thereby also improving its contribution to the revenue pie. Targeted campaigns and activations and the desire to own more premium/differentiated watches helped in good consumer demand for key brands in the portfolio. EBIT margins of the business decreased by 61 bps y-o-y to 11.0%. 81 Titan World and Helios stores have been renovated till now in FY23 offering a premium experience to customers. Store expansions pan-India (net) included 24 new store additions of Titan World, 17 of Helios and 7 in Fastrack for the quarter, taking the watches and wearables business store count to 953.

Eyecare division grew by 12% y-o-y

Eyecare division grew by 12% with sales from Titan Eye+ stores and trade and distribution channel registering in-line growth with the overall Division. House brands growing the fastest whilst improving its share in the overall revenue pie. EBIT margin of the division decreased to 18.4%. During Q3FY23, Eyecare expanded its nation-wide presence adding 36 new stores in Titan Eye+ (net) stores, taking the store count for the EyeCare business to 863.

Emerging businesses continued to show strong momentum

Emerging business revenues grew by 72% y-o-y to Rs. 89 crore driven by ~50% growth in fragrances and ~21% growth in fashion accessories. Amongst key offline channels for F&FA, trade and Large Format Stores (LFS) grew the fastest, both clocking much higher growth than the overall division. Taneira's sales grew by ~150% y-o-y driven by new store openings and healthy double digit growth from existing stores. Customer response during the festive season was quite encouraging. The brand opened 5 new stores during the quarter, taking the total store count to 36 covering 17 cities pan-India. Bhubaneshwar, Patna and Gurugram were new city additions in the quarter with a store in each city and 2 stores were opened in the existing cities of Bengaluru and Chennai.

Subsidiaries' performance

- **Titan Engineering & Automation Limited (TEAL):** TEAL reported 52.7% y-o-y growth to Rs. 125 crore with Automation Solutions division growing by ~50% y-o-y and Manufacturing Services (earlier called Aerospace and Defense) division clocking ~64% y-o-y growth. EBIT margins stood at 0.3% with EBIT coming at Rs. 0.4 crore.
- **CaratLane (72.3% owned):** Caratlane grew 51.3% y-o-y to Rs. 677 crore driven by gifting campaigns around the festive season from beginning of Navratri and continuing till Bhai Dooj to capture consumer buying intent for the period. Studded jewellery growth was moderately higher than the overall growth and mix marginally higher than last year contributing to ~75% of the total business. EBIT margin came at 9.4% with EBIT standing at Rs. 64 crore.

Key conference call highlights

- **Demand environment:**
  - o **Jewellery business:** Demand improved in January 2023 after some softness witnessed in November and December 2022. The company is witnessing strong offtake in gold and studded jewellery despite increase in the gold prices. Growth in January was ahead of 3-year CAGR growth achived in Q3 of 20%. With strong wedding season ahead, the growth momentum in jewellery business is expected to sustain in the coming months.
  - o **Watches business:** The company has witnessed strong traction in the watches segment and expect double-digit revenue growth in Q4. Wearables category continues to gain strong traction. New product contribution in watches and wearable business is around 20-22%.
  - o **Eyecare business:** The business achieved growth of 40% in the month of January,2023 (on 3 years CAGR basis growth is around 37%).
- **EBIDTA margins:** Jewellery business will continue to achieve 12-13% EBIDTA margins; in watches business the company targets 14% EBIDTA margins. Overall consolidated margins will improve gradually.
- **Retail SSSG at 9%:** Jewellery business retail growth stood at 15%. Around 9% growth is driven by Same-store-sales growth (SSSG). Large part of SSSG is been driven by higher footfalls. New buyers' contribution to the total jewellery business has gone up to 49%.
- **Jewellery International:** The company has ~6 jewellery stores in the middle eastern market (5 Dubai and 1 Abu Dhabi). It is planning to take the store count 20 stores over the next 18 months. Existing stores are yet to be profitable. However traction in the stores is good.
- **Market share slightly improved for Jewellery biz:** Titan's market share in the jewellery business has increased to 6.8% from 6% at the end of FY2022.
- **Strong traction to gold exchange scheme:** The company witnessed strong traction to the gold exchange scheme in Q3FY2023. The contribution of same has gone-up to 30% in Q3.
- **Focus on new ventures:** The company launched IRTH brand of woman handbags in Q3. The bags are available in large format stores such as Shoppers Stop and online platform such as Nykaa. The company is focusing on achieving revenues of Rs. 1,000 crore from handbag segment.

Results (consolidated) Rs cr

Particulars	Q3FY23	Q3FY22	y-o-y (%)	Q2FY23	q-o-q (%)
Net sales	**11,167.0**	**9,903.0**	**12.8**	**8,567.0**	**30.3**
Other operating revenues	442.0	134.0	-	596.0	-25.8
Total Revenue	**11,609.0**	**10,037.0**	**15.7**	**9,163.0**	**26.7**
Raw material cost	8,840.0	7,501.0	17.9	6,630.0	33.3
Employee cost	411.0	324.0	26.9	392.0	4.8
Advertising	273.0	208.0	31.3	224.0	21.9
Other expenses	738.0	562.0	31.3	670.0	10.1
Total operating cost	10,262.0	8,595.0	19.4	7,916.0	29.6
Operating profit	**1,347.0**	**1,442.0**	**-6.6**	**1,247.0**	**8.0**
Other income	89.0	57.0	56.1	61.0	45.9
Interest & other financial cost	79.0	57.0	38.6	60.0	31.7
Depreciation	113.0	98.0	15.3	106.0	6.6
Profit Before Tax	**1,244.0**	**1,344.0**	**-7.4**	**1,142.0**	**8.9**
Tax	332.0	332.0	0.0	307.0	8.1
Reported PAT	**912.0**	**1,012.0**	**-9.9**	**795.0**	**14.7**
Adjusted EPS (Rs.)	10.3	11.4	-9.9	9.4	9.2
			bps		**bps**
GPM (%)	23.9	25.3	-141	27.6	-379
EBIDTA margins (%)	11.6	14.4	-276	13.6	-201
NPM (%)	7.9	10.1	-222	9.1	-125
Tax rate (%)	26.7	24.7	199	26.9	-19

Source: Company, Sharekhan Research

Business-wise revenues Rs cr

Particulars	Q3FY23	Q3FY22	y-o-y (%)	Q2FY23	Var(%)
Watches	811.0	708.0	14.5	829.0	-2.2
Jewellery (excluding bullion sales)	9,518.0	8,563.0	11.2	7,203.0	32.1
Eyecare	174.0	156.0	11.5	167.0	4.2
Others/Corporate	148.0	89.0	66.3	109.0	35.8
Bullion sales	315.0	54.0	-	482.0	-34.6
Standalone	**10,966.0**	**9,570.0**	**14.6**	**8,790.0**	**24.8**
Caratlane	677.0	447.0	51.5	448.0	51.1
TEAL	125.0	82.0	52.4	123.0	1.6
Others/Consol. Adj	-70.0	-4.0	-	-137.0	-48.9
Consolidated	**11,698.0**	**10,095.0**	**15.9**	**9,224.0**	**26.8**

Source: Company, Sharekhan Research

Business wise EBIT Rs cr

Particulars	Q3FY23	Q3FY22	y-o-y (%)	Q2FY23	Var(%)
Watches	89.0	82.0	8.5	123.0	-27.6
Jewellery	1,236.0	1,260.0	-1.9	1,103.0	12.1
Eyecare	32.0	34.0	-5.9	10.0	-
Others/Corporate	-29.0	-7.0	-	-31.0	-6.5
Standalone	**1,328.0**	**1,369.0**	**-3.0**	**1,205.0**	
Caratlane	64.0	33.0	93.9	29.0	-
TEAL	0.0	5.0	-	14.0	-
Others/Consol. Adj	-68.0	-6.0	-	-46.0	-
Consolidated	**1,324.0**	**1,401.0**	**-5.5**	**1,202.0**	**10.1**

Source: Company, Sharekhan Research

Business-wise EBIT margins (%)

Particulars	Q3FY23	Q3FY22	bps (y-o-y)	Q2FY23	bps (q-o-q)
Watches	11.0	11.6	-61	14.8	-386
Jewellery	13.0	14.7	-173	15.3	-233
Eyecare	18.4	21.8	-340	6.0	-
Standalone	**12.1**	**14.3**	**-219**	**13.7**	**-160**
Consolidated	**11.3**	**13.9**	**-256**	**13.0**	**-171**

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - On the path to achieve strong growth

Q3FY2023 was characterised by diverse trends for branded apparel and retail companies as strong festive and wedding demand in October was followed by a dull period up to mid-December and then pick-up in demand in the last 15 days of December. Steady demand for premium products and better consumer sentiments in the urban markets/metros augurs well for branded apparel and retail segment in the quarters ahead. In H2FY2023, revenue growth for branded apparels and retail companies will be boosted by higher demand during the festive and wedding season and higher ticket purchases. In the medium-long term, market share gains, higher traction on the e-Commerce platform, a strong retail space expansion strategy, and sustained expansion of product portfolio will help branded apparel and retail companies to post consistent growth. Better operating leverage and improved efficiencies would help branded apparel and retail companies to post higher margins in the coming years.

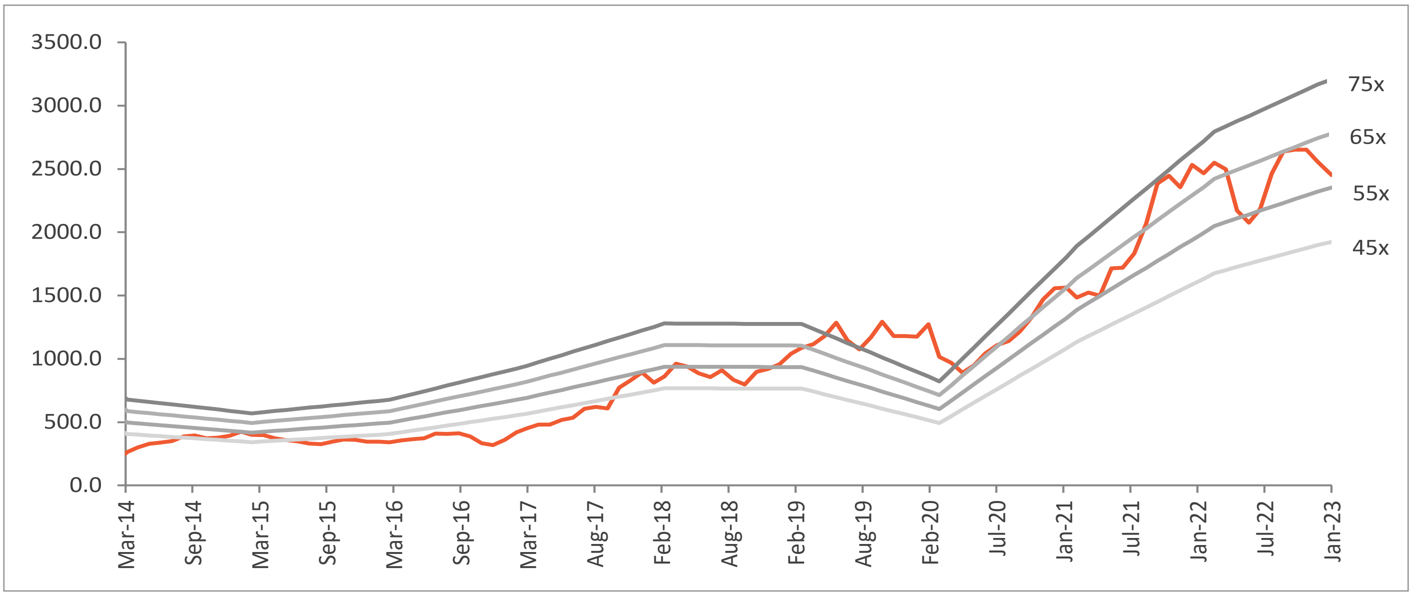
■ Company outlook - Consistent growth in long run

In 9MFY2023, revenues grew by 43% y-o-y to Rs. 28,709 crore and PAT grew by 52% y-o-y to Rs. 2,537 crore. 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 a revised PT of Rs. 2,950

Titan's Q3 performance can be considered as aberration and we should see good growth with stable margins in the quarters ahead. The company 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. A strong growth outlook, industry tailwinds in the medium term, and strong balance sheet make it a best play in the retail space. The stock has corrected by 17% in last two months and is currently trading at 61.9x/52.5x/42.9x its FY2023E/24E/25E earnings. We maintain our Buy recommendation on the stock with a revised price target of Rs. 2,950.

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	-	74.8	48.0	47.1	26.8	21.0	9.6	15.7	19.8
Titan Company	91.4	61.9	52.5	61.5	41.7	35.5	30.5	37.0	36.1

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 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's jewellery business is expected to grow at CAGR 20%+ over FY022-27.

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	3.85
2	Life Insurance Corp of India	3.26
3	Jhunjhunwala Rekha Rakesh	1.69
4	SBI Funds Management	1.56
5	Vanguard Group Inc	1.55
6	Blackrock Inc	1.36
7	UTI AMC	0.93
8	Sands Capital Management	0.87
9	ICICI Prudential Life Insurance Co	0.72
10	Aditya Birla Sun Life AMC	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

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