

## Steady performance; upbeat outlook on jewellery segment bodes well!

**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 2500+ stores spread across 3.2+ 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

**Q3FY23 results:** Titan's operational performance came in below our estimates owing to miss on the margins front.

- As guided by the management in its pre-quarterly update, the jewellery division (excluding gold bullion sale in both the quarters) reported steady growth of 13% YoY to ₹ 10151 crore (impressive three year CAGR: 21%). Watches segment registered 14% YoY revenue growth to ₹ 811 crore (three-year CAGR: 8%) with wearables sub-segment registering multi-fold increase. Overall consolidated revenues (including gold bullion sale: ₹ 315 crore) grew 16% YoY to ₹ 11609 crore
- The market saw increased competitive intensity and Titan resorted to higher competitive offers and increased investment on marketing. EBITDA margins declined 280 bps YoY to 11.6% (base quarter had one-time inventory gains on diamond). Ensuing PAT de-grew 10% YoY to ₹ 912.0 crore

**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 and maintain a **BUY** on the stock

**Target Price and Valuation:** We value Titan at ₹ 3030 i.e. 62x P/E on average of FY24-25E EPS.

### 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
- Aspires to grow jewellery revenues by 2.5x by FY27 (implied CAGR: 20%). Huge headroom for growth with current market share at ~7% 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 Trent.

- Inherent strength of brands (Westside, Zudio, Zara) and proven business model position Trent as a preferred pick. BUY with a TP of ₹ 1730



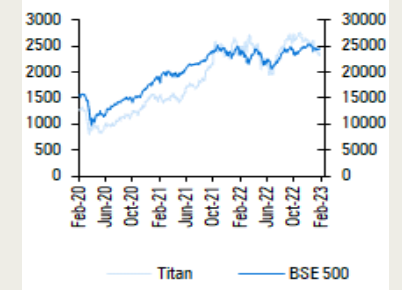
### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	2,16,619.8
Debt (FY22) (₹ Crore)	518.0
Cash & investments (FY22) (₹ Crore)	1,572.8
EV (₹ Crore)	2,15,565.0
52 week H/L	2791 / 1825
Equity Capital (₹ Crore)	88.8
Face Value (₹)	1

### Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	52.9	52.9	52.9	52.9	52.9
FII	18.6	18.4	16.8	17.0	17.5
DII	10.5	10.2	11.4	11.9	11.3
Others	18.1	18.5	18.9	18.2	18.3

### Price Chart



### Key risks

- (i) Current inflationary scenario can impact demand (ii) significant increase in gold prices can impact volumes

### Research Analyst

Bharat Chhoda  
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa  
cheragh.sidhwa@icicisecurities.com

### Key Financial Summary

Financials	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-245)
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 the quarters) reported steady growth of 13% YoY to ₹ 10151 crore. Prima facie, the growth trajectory appears to have moderated. However, we believe the growth rate should be viewed in the context of a very strong base of Q3FY22 (the division had recorded 37% YoY growth). On three-year CAGR basis, revenue growth continues to be impressive at 21%. CaratLane (72% owned subsidiary) continued to scale new highs with robust growth of 51% YoY to ₹ 677 crore. It has already clocked in ₹ 1600+ crore sales in YTD FY23 (FY22: ₹ 1250 crore) and is on track to achieve ₹ 2000+ crore sales in FY23. Overall retail sales for Tanishq (secondary) was at 14% YoY with SSSG of 9%. New buyer growth was at 9% with healthy contribution of 49% in Q3FY23. On the outlook, the management indicated that the jewellery sales were healthy in January 2023 (three-year CAGR 20%+) despite sharp surge in gold prices. The growth is also supported by recovery in wedding division (~20% of revenues)
- Revenue from watches segment grew 14% YoY to ₹ 811 crore, which was mainly price-led growth. Wearables sales continued to grow multi-fold thereby leading to an improved contribution to the overall sales. Eyewear segment grew 12% YoY to ₹ 174 crore with ASP's increasing by low single digit. Emerging business (which includes, fragrances and Indian wear) grew by 72% YoY to ₹ 89 crore led by 150% growth in Taneira brand (driven by new store openings and double digit growth from existing stores). The company added five Taneira stores taking the total count to 36. The management expects to exit FY23 with 50 stores and add another 34-35 stores in FY24E. Division also launched the 'IRTH' brand of women handbags during the quarter (present in 26 Shoppers Stop outlets, apart from online)
- The market witnessed increased competitive intensity across national/regional players and the company resorted to higher competitive offers and increased investment on marketing. Subsequently, gross margins declined 140 bps YoY to 23.9%. It was also lower owing to owing to higher base of previous year (the company had recorded inventory gains on diamond). Other expenses and marketing spends as a percentage to sales increased 76 bps and 28 bps YoY, respectively. Subsequently, EBITDA margins declined 280 bps YoY to 12% (I-direct estimate: 13.6%). On the segmental front, EBIT margins for jewellery division declined 240 bps YoY to 11.9%, while watches segment reported EBIT margins of 10.1% vs. 11.2% Q3FY22
- Titan's regionalisation strategy in key focus market (regions where it has a lower market share than its national average) is bearing fruits with market share gains in regions such as South and East. Titan continues to be one the fastest growing discretionary companies (three year CAGR: 20%) 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. Over the longer term company aspires to grow jewellery revenues by 2.5x by FY27 (implied CAGR: 20% from FY22 base). We expect revenues to increase 17% in FY23-25E with jewellery division expected to grow at a CAGR of 19% during the same period (we have not factored in gold bullion sale in FY24/25E). Expect EBITDA margins to be in the range of 12-12.5%. Robust business model (30%+ RoCE) and strong earnings visibility will enable Titan to sustain its premium valuations going forward. **We reiterate BUY with a revised target price of ₹ 3020 (62x P/E on average of FY24-25E EPS)**

### Q3FY23 conference call highlights

- The growth in the jewellery segment in Q3FY23 was driven by a mix of new buyers and higher ticket size. The consumers are buying gold jewellery due to higher wedding days and the perception of gold prices likely to increase in future. The market witnessed increased competitive intensity and the company resorted to higher competitive offers and increased investment on marketing.
- The lower priced products in the jewellery segment, which had witnessed a slow down earlier have now returned to normal levels
- The management indicated that the jewellery sales in January 2023 were healthy on a YoY basis as last year January had a low base owing to omicron. However, on a three-year CAGR basis the revenues in January 2023 have been higher than the three-year revenue CAGR seen in Q3FY23
- On the margin front, the management indicated that it is aiming to maintain an EBIT margin in the range of 12-13% for the jewellery segment. The company would focus on revenue growth.
- On its international retail operations, the management said that it had opened five stores in Dubai and one in Abu Dhabi. The company had faced some problems initially to roll out the stores but the scenario has stabilised now. The company has also opened a store New Jersey in US and is planning to open four more stores in the next few quarters
- The management highlighted that 70% of its jewellery is outsourced and 30% is manufactured in-house
- On the watches business, the management highlighted that new products contributed around 20-22% across all channels. Also the contribution of new products is higher in retail channel
- The smart watch segment contributed around 10% of the watch segment revenues. The company is charting out a path to target a triple digit growth in the smart watch segment considering the huge potential of the segment. The company is adding smart watches under the brand Fast Track and Titan with advanced features and designs and is looking at providing an enhanced customer proposition
- Among emerging business, the management highlighted that it had launched bags under the brand 'IRTH' and 'Fast Track'. These products have been made available in large format stores and modern retail like Shoppers Stop, Nykaa, AJIO, Myntra. The company is planning to expand the presence in the category as it is getting a good customer response. The company may at a later stage look at opening separate stores for the category. It is aspiring to achieve revenues to the tune of ₹ 1000 crore from the segment
- On the gold sourcing front, the management said that they were sourcing 30% of the gold requirements through gold exchange scheme. Though gold inventory is higher owing to spot purchase from customers however capital employed is at reasonable levels owing to gold on lease based sourcing

**Exhibit 1: Variance Analysis**

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Revenue	11609.0	11353.3	10037.0	15.7	9163.0	26.7	Sales include gold bullion worth ₹ 315 crore (Q3FY22: ₹ 54 crore). Excluding gold bullion sales, revenue grew at an impressive 3-year CAGR of 21%
Raw Material Expense	8,840.0	8,464.6	7,501.0	17.9	6,630.0	33.3	Gross margins contraction (down 140 bps YoY to 23.9%) on account of higher base and reduction in making charges
Employee Expenses	411.0	395.5	324.0	26.9	392.0	4.8	
Advertising Expenses	273.0	271.2	208.0	31.3	224.0	21.9	Marketing spends continued to be at higher levels of 2.4% as percentage to revenues (Q3FY22: 2%)
Other Expenses	738.0	678.1	562.0	31.3	670.0	10.1	
EBITDA	1,347.0	1,543.8	1,442.0	-6.6	1,247.0	8.0	3-year EBITDA CAGR: 21%
EBITDA Margin (%)	11.6	13.6	14.4	-276 bps	13.6	-201 bps	
Depreciation	113.0	110.2	98.0	15.3	106.0	6.6	
Interest	79.0	61.2	57.0	38.6	60.0	31.7	
Other Income	89.0	61.0	57.0	56.1	61.0	45.9	
PBT before Exceptional item	1,244.0	1,433.3	1,344.0	-7.4	1,142.0	8.9	
Exceptional Item	0.0	0.0	0.0		0.0		
PBT	1,244.0	1,433.3	1,344.0	-7.4	1,142.0	8.9	
Tax Outgo	332.0	360.8	332.0	0.0	307.0	8.1	
PAT	913.0	1072.5	1012.0	-9.8	835.0	9.3	3-year PAT CAGR: 24%

**Key Metrics**

**Jewellery**

Revenues (₹ Crore)	10,466.0	10,170.0	9,005.0	16.2	7,997.0	30.9	SSSG: 9%, Retail sales growth: 14%
Segment EBIT Margin (%)	11.9	NA	14.3	-243 bps	13.6	-173 bps	

**Watches**

Revenues (₹ Crore)	811.0	809.4	710.0	14.2	830.0	-2.3	
Segment EBIT Margin (%)	10.1	NA	11.3	-116 bps	14.7	-459 bps	

Source: Company, ICICI Direct Research

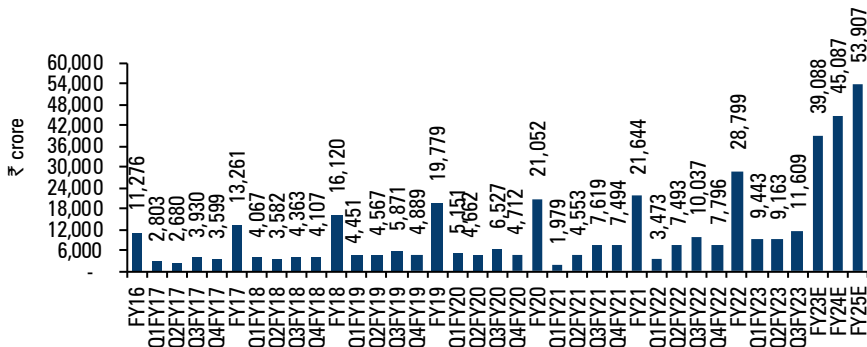
**Exhibit 2: Change in estimates**

(₹ Crore)	FY23E			FY24E			FY25E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	38,383.4	39,088.2	1.8	44,993.0	45,086.8	0.2	53,787.0	53,907.2	0.2
EBITDA	4,759.8	4,848.4	1.9	5,691.6	5,613.5	-1.4	6,800.0	6,815.5	0.2
EBITDA Margin (%)	12.4	12.4	0 bps	12.6	12.5	-20 bps	12.6	12.6	0 bps
PAT	3,263.7	3,330.0	2.0	3,949.6	3,891.2	-1.5	4,766.0	4,777.5	0.2
EPS (₹)	36.8	37.5	1.9	44.5	43.8	-1.5	53.7	53.8	0.2

Source: Company, ICICI Direct Research

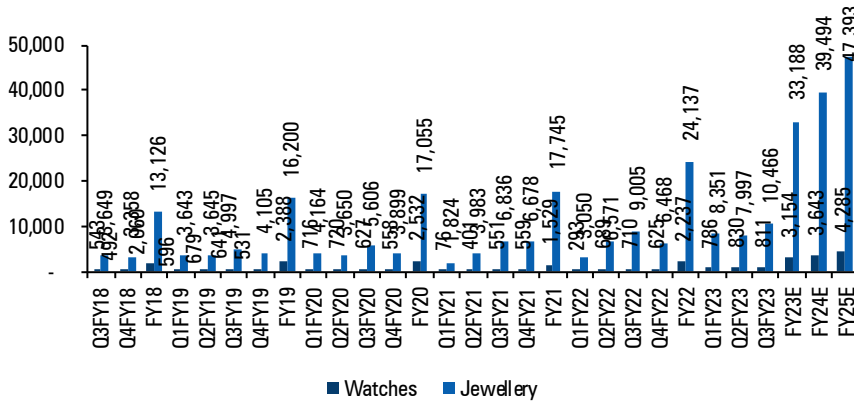
## Financial story in charts

Exhibit 3: Revenue trend



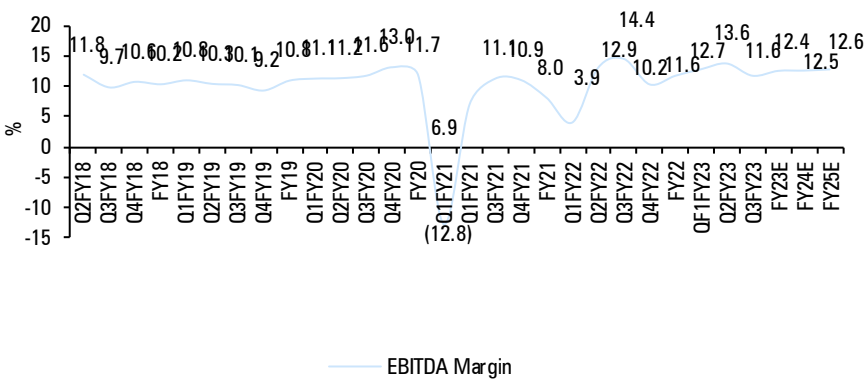
Source: Company, ICICI Direct Research

Exhibit 4: Divisional performance (revenue)



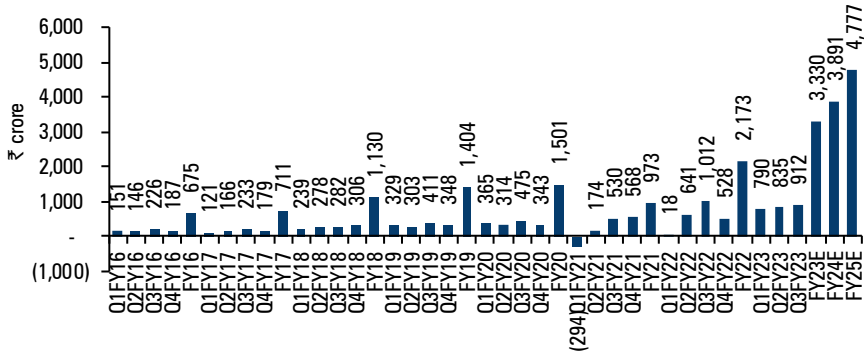
Source: Company, ICICI Direct Research

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	221.7	123.3	13.0	17.6
FY22	28,799.0	33.1	24.5	123.3	99.3	64.2	23.4	30.0
FY23E	39,088.2	35.7	37.5	53.2	64.8	44.4	27.8	36.9
FY24E	45,086.8	15.3	43.8	16.9	55.4	38.1	26.1	34.6
FY25E	53,907.2	19.6	53.8	22.8	45.2	31.2	26.1	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	39,088.2	45,086.8	53,907.2	
Growth (%)	2.8	33.1	35.7	15.3	19.6	
Raw Material Expenses	16,414.0	21,641.0	28,847.1	33,093.7	39,567.9	
Employee Expenses	1,065.0	1,349.0	1,688.6	1,983.8	2,339.6	
Mfg, Admin & selling Exps	2,441.0	2,468.0	3,704.1	4,395.8	5,184.2	
Total Operating Expenditure	19,920.0	25,458.0	34,239.8	39,473.3	47,091.7	
<b>EBITDA</b>	<b>1,724.0</b>	<b>3,341.0</b>	<b>4,848.4</b>	<b>5,613.5</b>	<b>6,815.5</b>	
Growth (%)	-30.1	93.8	45.1	15.8	21.4	
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	4,451.9	5,202.1	6,387.0	
Exceptional items*	0.0	54.0	0.0	0.0	0.0	
Total Tax	353.0	706.0	1,121.9	1,310.9	1,609.5	
Share of JV/Minority int	-6.0	-25.0	0.0	0.0	0.0	
<b>PAT</b>	<b>973.0</b>	<b>2,173.0</b>	<b>3,330.0</b>	<b>3,891.2</b>	<b>4,777.5</b>	
Growth (%)	-35.2	123.3	53.2	16.9	22.8	
<b>EPS (₹)</b>	<b>11.0</b>	<b>24.5</b>	<b>37.5</b>	<b>43.8</b>	<b>53.8</b>	

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	3,330.0	3,891.2	4,777.5	
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	-4,674.7	-2,612.6	-4,628.9	
Inc/(dec) in CL and Provisions	2,616.4	2,457.0	1,442.8	1,034.0	2,436.8	
Others	215.1	0.0	0.0	0.0	0.0	
<b>CF from operating activities</b>	<b>4,151.8</b>	<b>-840.0</b>	<b>763.7</b>	<b>3,041.5</b>	<b>3,388.5</b>	
(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	
<b>CF from investing activities</b>	<b>-2,751.1</b>	<b>2,227.0</b>	<b>-350.4</b>	<b>-311.2</b>	<b>-316.8</b>	
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	-972.8	-1,194.4	
Others	-106.6	-142.0	-177.6	-172.7	-207.0	
<b>CF from financing activities</b>	<b>-1,222.6</b>	<b>-373.5</b>	<b>-1,572.9</b>	<b>-1,419.7</b>	<b>-1,682.8</b>	
Net Cash flow	178.1	1,013.5	-1,159.6	1,310.7	1,389.0	
Opening Cash	381.2	559.3	1,572.8	413.1	1,723.8	
<b>Closing Cash</b>	<b>559.3</b>	<b>1,572.8</b>	<b>413.1</b>	<b>1,723.8</b>	<b>3,112.8</b>	

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet		₹ crore				
(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E	
<b>Liabilities</b>						
Equity Capital	88.8	88.8	88.8	88.8	88.8	
Reserve and Surplus	7,407.5	9,214.0	11,879.0	14,797.4	18,380.5	
Total Shareholders funds	7,496.3	9,302.8	11,967.8	14,886.2	18,469.3	
Total Debt	165.0	518.0	33.4	30.0	27.0	
Deferred Tax Liability	(97.0)	(181.0)	(181.0)	(170.6)	(157.8)	
Other long term liabilities	1,261.0	1,389.0	1,389.3	1,389.6	1,389.9	
<b>Total Liabilities</b>	<b>8,825.3</b>	<b>11,028.8</b>	<b>13,209.5</b>	<b>16,135.2</b>	<b>19,728.4</b>	
<b>Assets</b>						
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	17,670.0	19,764.1	23,630.6	
Debtors	366.0	565.0	642.5	741.2	886.1	
Loans and Advances	1,513.0	2,200.0	2,736.2	3,156.1	3,773.5	
Other Current Assets	-	-	-	-	-	
Cash	559.3	1,572.8	413.1	1,723.8	3,112.8	
Total Current Assets	10,846.3	17,946.8	21,461.8	25,385.1	31,403.0	
Creditors	4,999.0	6,692.0	8,353.1	9,387.9	11,224.5	
Other Current Liabilities	2,336.0	3,050.0	2,892.5	2,840.5	3,396.2	
Provisions	186.0	236.0	175.2	226.4	270.9	
Total Current Liabilities	7,521.0	9,978.0	11,420.8	12,454.8	14,891.6	
Net Current Assets	3,325.3	7,968.8	10,041.0	12,930.3	16,511.4	
Others Non Current Assets	1,038.0	1,110.0	1,160.0	1,160.0	1,160.0	
<b>Application of Funds</b>	<b>8,825.3</b>	<b>11,028.8</b>	<b>13,209.5</b>	<b>16,135.2</b>	<b>19,728.4</b>	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios		FY21	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>						
EPS	11.0	24.5	37.5	43.8	53.8	
Cash EPS	15.3	29.3	42.2	49.0	59.7	
BV	84.4	104.8	134.8	167.7	208.0	
DPS	4.0	4.0	7.5	11.0	13.5	
Cash Per Share	6.3	17.7	4.7	19.4	35.1	
<b>Operating Ratios</b>						
EBITDA Margin (%)	8.0	11.6	12.4	12.5	12.6	
PBT Margin (%)	6.2	10.3	11.4	11.5	11.8	
PAT Margin (%)	4.5	7.6	8.5	8.6	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	
<b>Return Ratios (%)</b>						
RoE	13.0	23.4	27.8	26.1	25.9	
RoCE	17.6	30.0	36.9	34.6	34.0	
RoIC	31.7	37.0	39.2	35.4	34.7	
<b>Valuation Ratios (x)</b>						
P/E	221.7	99.3	64.8	55.4	45.2	
EV / EBITDA	123.3	64.2	44.4	38.1	31.2	
EV / Net Sales	9.8	7.4	5.5	4.7	3.9	
Market Cap / Sales	10.0	7.5	5.5	4.8	4.0	
Price to Book Value	28.8	23.2	18.0	14.5	11.7	
<b>Solvency Ratios</b>						
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

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, AkruTI Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)



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