



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
Updated Aug 08, 2023

14.90

Low Risk

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

Source: Morningstar

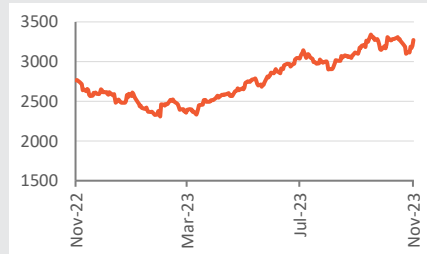
Company details

Market cap:	Rs. 2,90,532 cr
52-week high/low:	Rs. 3,352 / 2,269
NSE volume: (No of shares)	9.1 lakh
BSE code:	500114
NSE code:	TITAN
Free float: (No of shares)	41.8 cr

Shareholding (%)

Promoters	52.9
FII	19.9
DII	10.1
Others	17.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.3	12.7	19.7	18.4
Relative to Sensex	4.7	14.7	14.3	12.6

Sharekhan Research, Bloomberg

Titan Company Ltd
Strong Q2

Consumer Discretionary

Sharekhan code: **TITAN**

Reco/View: **Buy**

CMP: **Rs. 3,273**

Price Target: **Rs. 3,740**

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Titan Company's (Titan's) Q2 beat ours as well as the street expectation led by higher bullion sales. Net revenues grew by 25% y-o-y; EBITDA margins came in-line at 11.3%.
- Shraadh period and a spike in gold prices resulted in slow start for jewellery business in Q3; management quite upbeat about strong festive sales and higher wedding demand sales.
- Titan maintained its guidance of 12-13% margins in jewellery business, no material impact of correction in the diamond prices on studded jewellery profitability.
- Stock trades at 75x/60x/53x its FY2024E/25E/26E earnings. It remains one of our top picks in the discretionary space. We maintain Buy with a revised PT of Rs. 3,740.

Titan's Q2FY2024 performance was ahead of our as well as street expectation on account of higher bullion sales. Consolidated net revenues grew by 25% y-o-y to Rs. 10,708 crore driven by 19% y-o-y growth in standalone jewellery business, 32% y-o-y growth in watches business and 45% y-o-y growth in its subsidiary - Caratlane. Bullion sales stood at Rs. 1,755 crore in Q2FY2024 vs. Rs. 482 crore in Q2FY2023. Consolidated gross margin and EBITDA margin declined by 426 bps and 235 bps y-o-y to 23.4% and 11.3%, respectively impacted by change in mix (including higher bullion sales). EBITDA grew by 13.2% y-o-y to Rs. 1,411 crore and reported PAT grew by ~10% y-o-y to Rs. 915 crore. For H1FY2024, the company's consolidated revenues grew by 23% y-o-y to Rs. 21,559 crore, OPM stood at 10.5% and reported PAT grew by 3% y-o-y to Rs. 1,672 crore.

Key positives

- Tanishq's like-for-like growth stood strong at 22% in Q2.
- Watches business grew by 32% y-o-y with a 22% y-o-y growth in Analog watches driven by double-digit growth in average selling price.
- Emerging businesses grew by 28% y-o-y, Taneira's saw a strong growth of 64% y-o-y.
- Caratlane revenues grew by 45% y-o-y to Rs. 650 crore.

Key negatives

- Jewellery and eyecare margins were down by 125 bps and 187 bps y-o-y respectively in Q2.
- TEAL's revenues stood flat at Rs. 125 crore.

Management Commentary

- Jewellery business started Q3 on slow note with 14 days of Shradh and 10% increase in gold prices at September 2023-end hit the momentum. However, the management is optimistic of strong pick-up prior to major festivals and the wedding season.
- New Buyer contribution stood at 48% in Q2. Repeat customers ticket size is higher compared to new buyer in upwards of Rs. 1,00,000. It takes 2-3 years for new buyers to become a repeat customer.
- A drop in diamond prices is unlikely to have any material impact on the jewellery business margins as large part of studded jewellery sales is coming from non-solitaire products. The company has maintained its guidance of 12-13% margins in Jewellery business.
- The company has 13 Tanishq stores in the International market. All Tanishq store are gaining strong traction in key geographies.
- Titan raised ~Rs. 2,500 crore through NCD and Rs. 1,000 crore through unsecured loans. The amount raised will be utilised to increase its stake in Caratlane.
- Zoya brand is currently operating through 8 stores and the company is planning to add another 6-7 stores over next one year. On the consumer price terms, Zoya brand revenues are around Rs. 140 crore.

Revision in earnings estimates: We broadly maintain our earnings estimates for FY2024 and FY2025 and will keenly monitor Q3 performance to make any changes in estimates. We have introduced FY2026 earnings through this note.

Our Call

View - Retain Buy with a revised PT of Rs. 3,740: Titan is eyeing a revenue CAGR of over 20% during FY2022-FY2027 led by an ambitious growth plan in the medium term. Though this will have some hit on margins initially, it expects consistent growth and improved mix to drive margins in the long run. Strong growth outlook, focus on sustained market share gains, and strong balance sheet make it the best play in the discretionary space. The stock is currently trading at 75x, 60x and 53x its FY2024E, FY2025E and FY2026E earnings, respectively. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 3,740 (rolling it over Sept-25 earnings).

Key Risks

Volatile gold prices or a slowdown in key business verticals would act as a key risk to our earnings estimates.

Valuation (Consolidated)

Particulars	FY23	FY24E	FY25E	FY26E
Revenue (excluding bullion sales)	37,924	47,069	55,417	64,384
OPM (%)	12.0	11.1	12.1	12.4
Adjusted PAT	3,272	3,878	4,839	5,536
Adjusted EPS (Rs.)	36.9	43.7	54.5	62.4
P/E (x)	88.7	74.9	60.0	52.5
P/B (x)	24.5	19.1	14.9	11.9
EV/EBIDTA (x)	60.2	51.4	41.0	35.4
RoNW (%)	30.9	28.7	27.9	25.2
RoCE (%)	33.7	31.1	32.4	30.8

Source: Company; Sharekhan estimates

Strong Q2 – Double-digit revenue growth across businesses

Titan's consolidated revenue grew by 25% y-o-y to Rs. 10,708 crore, against our expectation of Rs. 10,848.6 crore and average street expectation of Rs. 10,201 crore. Revenue of the jewellery business (ex-bullion) grew by 19% y-o-y to Rs. 8,575 crore, while revenue of the watches and wearables business grew by 31.7% y-o-y to Rs. 1,092 crore and eyewear business grew by 12.6% y-o-y to Rs. 188 crore. Titan's subsidiary, CaratLane registered revenue growth of 45.1% y-o-y to Rs. 650 crore, while TEAL's revenue grew by just 1.6% y-o-y to Rs. 125 crore. Consolidated gross margin and EBITDA margin declined by 426 bps and 235 bps y-o-y to 23.4% and 11.3%, respectively. EBITDA margin came in-line with our and average street expectation of 11.1-11.6%. All business verticals witnessed decline in EBIT margin with eyecare business EBIT margin falling the most by 187 bps y-o-y to 14.9%, jewellery business EBIT lower by 125 bps y-o-y to 14.1%, while watches business posted marginal decline of 19 bps y-o-y to 14.7%. EBITDA grew by 13.2% y-o-y to Rs. 1,411.1 crore and reported PAT grew by 9.6% y-o-y to Rs. 915 crore. PAT came ahead of our and average street expectation of Rs. 852 crore and Rs. 767 crore, respectively, largely due to higher bullion sales. In H1FY2024, revenue grew by 31.3% y-o-y to Rs. 24,426 crore, while EBITDA margin fell by 275 bps y-o-y to 10.4%, leading to just 2.8% y-o-y PAT growth to Rs. 1,671 crore.

Jewellery business revenue growth at 19% y-o-y; margin fell by 125 bps y-o-y

The business registered a 19% y-o-y growth (ex-bullion) to Rs. 8,575 crore with domestic business growing by 21% led by 'Festival of Diamonds' (studded activation), Tales of Mystique collection, Rivaah-x-Tarun Tahiliani collection and well accompanied by regional campaigns. The Business witnessed healthy double-digit growths in both buyers and average bill value per buyer in Q2FY2024. The New:Repeat buyer ratio was 48:52 for Q2FY24. Revenue from exports declined by ~33% y-o-y due to lower inventory transfers to overseas subsidiaries. EBIT came in at Rs. 1,206 crore clocking an EBIT margin of 14.1% helped by better studded share in the portfolio. Tanishq expanded its presence in Gulf Co-operation Countries (GCC) to enter Qatar with two new stores in Doha. Tanishq's international presence now stands at 10 stores including the one store in New Jersey, USA. Zoya entered the state of Gujarat by opening its first store at Palladium mall, Ahmedabad. With this expansion, the niche luxury jewellery brand is now present in eight stores spread across the cities of Mumbai, New Delhi, Bengaluru, Gurgaon, Hyderabad, and Ahmedabad. During Q2FY2024, Tanishq opened 10 new stores in India and Mia added 26 new stores thereby expanding its presence to 59 towns within India.

Watches and wearables business revenue grew by 32% y-o-y; EBIT margins stood largely flat y-o-y

The business registered a 31.7% y-o-y growth to Rs. 1,092 crore comprising of 22% growth in the Analog watches to Rs. 870 crore and 131% growth in Wearables to Rs. 175 crore. Premiumization theme continued to work well and international brands (Helios) exhibited strong double-digit growth in the analog segment. Amongst key channels, Helios, Large Format Stores (LFS) and E-commerce grew in healthy double-digits y-o-y while Titan World clocked single digit y-o-y growth. The sales from Ecommerce more than doubled as the partners stocked up in anticipation of strong Q3 festive season sales. In Wearables, Fastrack brand nearly quadrupled in volumes with contribution improving to ~17% of the total W&W portfolio from ~10% in Q2FY2023. EBIT came in at Rs. 160 crore with an EBIT margin of 14.7%. Business added 10 new stores in Titan World, 5 in Helios and 5 stores in Fastrack in Q2FY2024.

Eyecare business revenue growth at 13% y-o-y; EBIT margin down by 187 bps y-o-y

The business witnessed 12.6% y-o-y growth to Rs. 188 crore. International brands clocked a faster growth of ~14% y-o-y whereas house brands growth was in-line with that of the business. The share of International brands inched up to ~25%+ share in the portfolio. Amongst categories, revenue from sunglasses grew ~47% y-o-y, Lenses grew ~9% y-o-y whereas growth in Frames was nearly flat y-o-y. Growth was largely driven by increase in volumes with average selling price remaining flat y-o-y. Within channels, Titan Eye+'s growth was in-line as that of the Division. Titan Eye+ introduced 'Zefr', a new brand of luxury frames during the quarter. Titan EyeX 2.0 and Fastrack vibes 2.0, two exciting introductions in Gen2 smart glasses with enhanced audio and music capabilities were successfully launched in Q2FY2024. EBIT for the business came in at Rs. 28 crore clocking a margin of 14.9%. The business added four new stores in Titan Eye+ (net); Fastrack expanded its metro presence by adding one new store in Chennai during Q2FY2024.

Emerging businesses continued to growth momentum

Emerging Businesses comprising of Fragrances, Fashion Accessories (F&FA) and Indian Dress Wear (Taneira) grew by 27% y-o-y to Rs. 93 crore. The F&FA business grew by 4% y-o-y, with Fragrances growing by 12% y-o-y and Women's Bags, led by 'IRTH' brand, clocking 31% y-o-y growth. The other fashion accessories business comprising of belts and wallets however was lower by 40% y-o-y. Taneira's business grew by 64% y-o-y driven by festive collections and campaigns around Onam, Varamahalakshmi, Ganesh Chaturthi, Raksha Bandhan and Teej, actively promoted on digital platforms. The 'Pujo' collection, a range of 'Lal Paars', spanning various clusters, crafts, and price points was launched during the quarter. Taneira opened four new stores during the quarter, taking the total store count to 51 stores covering 25 cities. The Emerging Businesses together recorded a loss of Rs. 24 crore for Q2FY2024 versus loss of Rs. 18 crore in Q2FY2023.

Subsidiaries' performance

- ♦ **Titan Engineering & Automation Limited (TEAL):** The Business reported revenue of Rs. 125 crore, registering a y-o-y growth of 2%. Within divisions, the Automation Solutions (AS) division revenue was lower by ~15% y-o-y, whereas Manufacturing Services (MS) division reported revenue growth of ~25% y-o-y. The AS division's order flow nearly tripled y-o-y resulting in a closing order book of over Rs. 600 crore at Q2FY2024-end. EBIT for the quarter came in at Rs. 20 crore with a margin of 15.9%.
- ♦ **CaratLane (72.3% owned):** CaratLane grew by 45% y-o-y to Rs. 650 crore driven by campaigns around the mini festive season of Raksha Bandhan and Old Gold Exchange offer. Revenue from the key category of studded grew ~45% y-o-y, with studded contribution stable at 70%+ of the total business. 'Switch', CaratLane's first convertible jewellery collection was launched targeting customers with a love for versatile designs that match their dynamic styling. The brand rolled out a 'Request-In-Store' feature in Q2FY2024 aimed at deepening the customer omni-channel experience. EBIT came in at Rs. 26 crore clocking a margin of 4.1%. CaratLane added 13 new stores (net) in the quarter taking the total store count to 246 stores spread across 97 cities pan-India.

Results (Consolidated)						Rs cr
Particulars	Q2FY24	Q2FY23	Y-o-Y %	Q1FY24	Q-o-Q %	
Net sales	10,708.0	8,567.0	25.0	10,851.0	-1.3	
Other operating revenues	1,821.0	596.0	-	1,046.0	74.1	
Total Revenue	12,529.0	9,163.0	36.7	11,897.0	5.3	
Raw material cost	9,599.0	6,630.0	44.8	9,255.0	3.7	
Employee cost	463.0	392.0	18.1	448.0	3.3	
Advertising	268.0	224.0	19.6	274.0	-2.2	
Other expenses	788.0	670.0	17.6	795.0	-0.9	
Total operating cost	11,118.0	7,916.0	40.4	10,772.0	3.2	
Operating profit	1,411.0	1,247.0	13.2	1,125.0	25.4	
Other income	124.0	61.0	-	114.0	8.8	
Interest & other financial cost	140.0	60.0	-	109.0	28.4	
Depreciation	144.0	106.0	35.8	128.0	12.5	
Profit Before Tax	1,251.0	1,142.0	9.5	1,002.0	24.9	
Tax	336.0	307.0	9.4	246.0	36.6	
Adjusted PAT	915.0	835.0	9.6	756.0	21.0	
Extraordinary item	0.0	0.0	-	40.0	-	
Reported PAT	915.0	835.0	9.6	716.0	27.8	
Adjusted EPS (Rs.)	10.3	9.4	9.6	8.5	21.0	
			bps		bps	
GPM (%)	23.4	27.6	-426	22.2	118	
EBIDTA margins (%)	11.3	13.6	-235	9.5	181	
NPM (%)	7.3	9.1	-180	6.4	96	
Tax rate (%)	26.9	26.9	-2	24.6	231	

Source: Company; Sharekhan Research

Business-wise revenues						Rs cr
Particulars	Q2FY24	Q2FY23	Y-o-Y %	Q1FY24	Q-o-Q %	
Jewellery (excluding bullion sales)	8,575	7,203	19.0	9,070	-5.5	
Watches	1,092	829	31.7	890	22.7	
Eyecare	188	167	12.6	203	-7.4	
Others	93	73	27.4	76	22.4	
Corporate (unallocated)	79	36	-	67	17.9	
Bullion sales	1,755	482	-	938	87.1	
Standalone	11,782	8,790	34.0	11,244	4.8	
Caratlane	650	448	45.1	640	1.6	
TEAL	125	123	1.6	61	-	
Others/Consol. Adj	96	-137	-	67	43.3	
Consolidated	12,653	9,224	37.2	12,012	5.3	

Source: Company; Sharekhan Research

Business-wise EBIT margin						(%)
Particulars	Q2FY24	Q2FY23	Y-o-Y (bps)	Q1FY24	Q-o-Q (bps)	
Watches	14.7	14.8	-19	11.5	319	
Jewellery	14.1	15.3	-125	11.0	305	
Eyecare	14.9	16.8	-187	17.2	-235	
Standalone	11.6	13.7	-211	9.8	179	

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Long-term growth prospects intact

Organic same-store sales of retail companies are likely to be muted due to weak consumer sentiments as higher inflationary pressures affected demand, while revenue growth is expected to be largely driven by strong store expansion. We expect growth to be muted in H1FY2024 but expect it to gradually recover prior to the festive season. Branded retail and apparel companies are likely to benefit from steady demand for premium products and better consumer sentiments in urban markets/metros in the quarters ahead. 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.

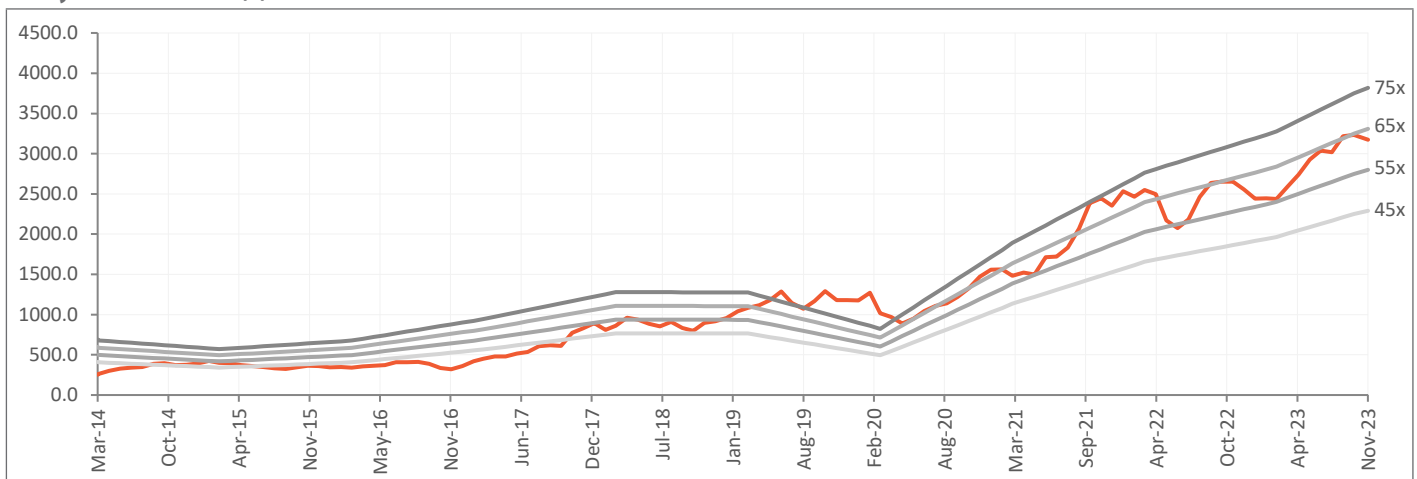
■ Company Outlook – Consistent growth in long run

Titan registered strong double-digit revenue growth across divisions in Q2FY2024, while margins were lower y-o-y leading to near double-digit PAT growth. Despite near-term headwinds of high inflation, the company is confident of maintaining good growth momentum in the quarters ahead, led by market share gains, network expansion, and a 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 of new ventures.

■ Valuation – Retain Buy with a revised PT of Rs. 3,740

Titan is eyeing a revenue CAGR of over 20% during FY2022-FY2027 led by an ambitious growth plan in the medium term. Though this will have some hit on margins initially, it expects consistent growth and improved mix to drive margins in the long run. Strong growth outlook, focus on sustained market share gains, and strong balance sheet make it the best play in the discretionary space. The stock is currently trading at 75x, 60x and 53x its FY2024E, FY2025E and FY2026E earnings, respectively. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 3,740 (rolling it over Sept-25 earnings).

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Trent	-	73.2	51.6	51.0	34.3	26.8	14.5	22.6	26.3
Titan Company	88.7	74.9	60.0	60.2	51.4	41.0	33.7	31.1	32.4

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 2,859 stores across 415 towns with a retail area crossing 3.7 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 post a CAGR of >20% over FY2022-FY2027.

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
N.N. Tata	Vice Chairman
C.K. Venkataraman	Managing Director
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 Rekha Rakesh	5.36
2	Vanguard Group Inc	1.86
3	Life Insurance Corp of India	1.77
4	SBI Funds Management	1.59
5	Blackrock Inc	1.43
6	UTI AMC	0.89
7	Sands Capital Management	0.78
8	Capital Group Cos Inc	0.78
9	ICICI Prudential Life Insurance Co	0.62
10	Aditya Birla Sun Life AMC	0.40

Source: Bloomberg

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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 deteriorating 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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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

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Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

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