Sharekhan
by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Titan Company Ltd

Jewellery biz strong performance continues

Stock Update

Company Update

Consumer Discretionary	Sharekhan code: TITAN
Reco/View: Buy ↔	CMP: **Rs. 3,706**
	Price Target: **Rs. 4,112** ↑

↑ 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		↔	

Company details

Market cap:	Rs. 3,28,987 cr
52-week high/low:	Rs. 3,784/2,269
NSE volume: (No of shares)	8.7 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	2.0	13.4	21.7	46.0
Relative to Sensex	-0.2	5.4	12.5	26.9

Sharekhan Research, Bloomberg

Summary

- We retain a Buy on Titan with a revised price target of Rs. 4,112. Stock trades at 46x/40x its FY2025E/26E EV/EBIDTA.
- Jewellery business continues to shine, registering a 23% y-o-y growth driven by double-digit growth in footfalls.
- Watches and emerging business registered strong growth of 21% and 24% y-o-y, respectively, during the quarter.
- Sustained growth in jewellery business, store expansion plans and better growth in watches business will help the company to clock earnings growth of 20% over FY2023-2026E.

Titan's Q3FY2024 pre-quarter update provides a glimpse of the company's strong performance with revenues expected to grow by over 20% driven by yet another strong quarter by the jewellery business. Q3FY2024 is fourth consecutive quarter of ~20% y-o-y growth in revenue led by strong growth in the footfalls, while realisation growth was marginal during the quarter. Demand for plain gold and coins was high despite significant increase in the gold prices. Watches business has also clocked strong numbers, registering a 21% y-o-y growth with analog segment growing by 18% y-o-y. Emerging business registered 24% y-o-y growth with Taneira's revenues rising 61% y-o-y. Overall, standalone revenues are expected to grow by 22% y-o-y during the quarter. Store expansion continued across businesses and geographies with the company adding 90 stores in Q3FY2024, taking the group's retail presence to 2,949 stores.

- **Strong show by jewellery business:** Jewellery division grew by 23% y-o-y (domestic growth at 21% y-o-y) aided by double-digit footfall growth, while average selling prices improved moderately. Growth momentum was maintained during the festive period by carrying out suitable investments in exchange programs and consumer offers. Higher consumer interest in gold aided in strong demand for gold (plain) and coins in the festive quarter. Wedding segment contribution improved marginally y-o-y. The division added a net 38 stores in Q3FY2024 (34 in India and 4 internationally).
- **Watches business grew by 23% y-o-y; muted quarter for eyecare:** Watches & Wearables (W&W) division's domestic business grew 23% y-o-y driven by 18% y-o-y growth in the Analog watches and 64% y-o-y growth in Wearables. Growth in analog sub-segment was driven by healthy double-digit growths in Titan, Sonata, Helios and International brands. EyeCare division posted a muted quarter with revenues expected to fall by 3% y-o-y. The W&W division added 25 stores (net), while the Eyecare division saw nil (net) addition during the quarter.
- **Revenue and PAT to clock a 20% CAGR over FY2023-26E:** Titan aims to achieve consistent double-digit revenue growth over the next few years led by store expansion coupled with 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.

Our Call

View - Retain Buy with a revised PT of Rs. 4,112: 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 makes it the best play in the discretionary space. The stock is currently trading at 46x and 40x its FY2025E and FY2026E EV/EBIDTA, respectively. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 4,112 (rolling it over FY26E 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) Rs cr

Particulars	FY23	FY24E	FY25E	FY26E
Revenue (excluding bullion sales)	37,924	47,365	55,725	65,187
OPM (%)	12.0	11.1	12.1	12.4
Adjusted PAT	3,272	3,919	4,858	5,616
Adjusted EPS (Rs.)	36.9	44.1	54.7	63.3
P/E (x)	-	84.0	67.7	58.6
P/B (x)	27.8	21.6	16.8	13.4
EV/EBIDTA (x)	68.1	57.6	46.2	39.6
RoNW (%)	30.9	28.9	27.9	25.4
RoCE (%)	33.7	31.3	32.4	31.1

Source: Company; Sharekhan estimates

Outlook and Valuation

■ Sector view - 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 to 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.

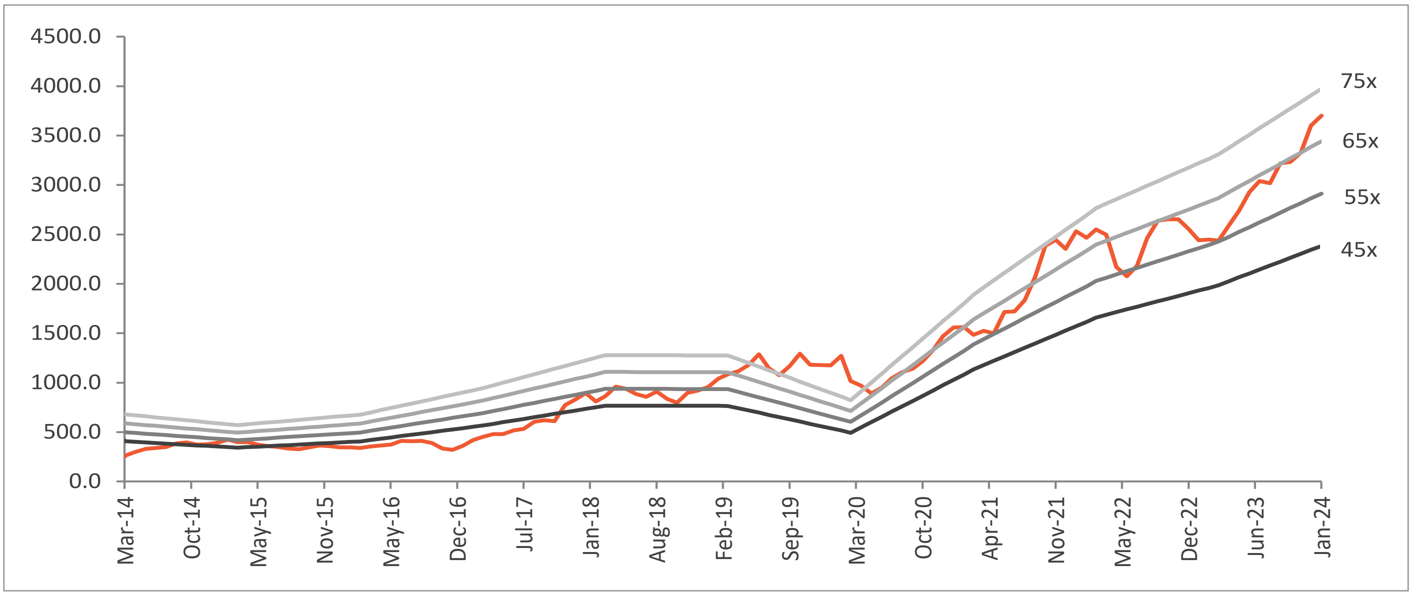
■ Company outlook - Eyeing consistent growth in long run

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. 4,112

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 a strong balance sheet makes it the best play in the discretionary space. The stock is currently trading at 46x and 40x its FY2025E and FY2026E EV/EBIDTA, respectively. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 4,112 (rolling it over FY26E earnings).

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	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	-	84.0	67.7	68.1	57.6	46.2	14.5	21.7	26.2

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

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 (Old data)

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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