Sharekhan by BNP PARIBAS

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Stock Update

Result Update

Titan Company

Q4: Weak on margins; focus remains on aggressive growth

Consumer Discretionary	Sharekhan code: TITAN
Reco/View: Buy ↔	CMP: Rs. 3,535
	Price Target: Rs. 3,990 ↓

↑ 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. 3,13,868 cr
52-week high/low:	Rs. 3,885/2,657
NSE volume: (No of shares)	9.0 lakh
BSE code:	500114
NSE code:	TITAN
Free float: (No of shares)	41.8 cr

Shareholding (%)

Promoters	52.9
FII	19.8
DII	10.5
Others	16.8

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-4.8	-2.1	8.0	33.2
Relative to Sensex	-4.8	-4.6	-6.8	12.5

Sharekhan Research, Bloomberg

Summary

- Titan Company's (Titan's) Q4FY2024 performance was affected by lower-than-expected EBIDTA margins at 9.5%, resulting in lower EBIDTA growth of 9%. Consolidated revenue grew 22% y-o-y.
- Intense competition in the weak demand environment led to dip in the margins of jewellery business due to higher consumer offers.
- Titan is targeting aggressive growth in the jewellery business (in strong double-digits). EBIT margin of the business is likely to remain weak in the near term and improve in H2FY2025. Management has maintained its guidance of 12-13% EBIT margins for the jewellery business.
- The stock trades at 74x/58x its FY205E/FY2026E earnings. We maintain Buy with a revised PT of Rs. 3,990.

Titan's Q4FY2024 performance was affected by higher gold prices and increased competitive intensity resulting in lower EBITDA margin of 9.5% (lower than our as well as street's expectation of 10.5-10.8%). Consolidated net revenue grew 21.9% y-o-y to Rs. 11,229 crore (in line with our expectation of Rs. 11,056 crore), driven by 19% y-o-y growth in the standalone jewellery business and 29% y-o-y and 2.1x y-o-y growth in its subsidiary – CaratLane and TEAL, respectively. Bullion sales stood at Rs. 1,127 crore in Q4FY2024 versus Rs. 1,055 crore in Q4FY2023. Consolidated gross margin and EBITDA margin declined 196 bps and 98 bps y-o-y to 22.3% and 9.5% (lower than our expectation of 10.8%), respectively, impacted by higher offers/discounts in the jewellery business and higher gold prices. EBITDA grew 9.4% y-o-y to Rs. 1,191 crore and reported PAT grew 4.8% y-o-y to Rs. 771 crore (in line with our expectation of Rs. 769 crore). For FY2024, consolidated revenue grew 25.9% y-o-y to Rs. 51,084 crore (including bullion sales), EBIDTA margin stood at 10.4%, and PAT grew 6.8% y-o-y to Rs. 3,496 crore.

Key positives

- Jewellery business (domestic) grew 20%; buyer growth stood in healthy double-digits.
- Emerging businesses grew 26% y-o-y, Taneira saw strong growth of 36% y-o-y.
- Subsidiaries – CaratLane and TEAL posted strong y-o-y growth of 29% and 114%, respectively.

Key negatives

- The jewellery business's margins were down 106 bps y-o-y to 12.1%, impacted by higher consumer offers and increased gold prices.
- Wearables revenue grew by just 3% y-o-y, impacted by the higher inventory of lower-price products of competitors available in the market.
- The eyecare division registered flat sales of Rs. 166 crore in Q4FY2024.

Management Commentary

- **Jewellery business margins:** Gross margins were lower due to customer offers and high competitive intensity in the backdrop of elevated gold prices. The demand environment was soft and, hence, all peers tried to push sales through higher offers. The company will take relevant measures to reduce the impact of high gold prices but the benefit of the same will be reflected with a lag of two quarters. Margins of the jewellery business will remain weak in H1 and are expected to recover in H2. The company has maintained its guidance of 12-13% EBIT margin for FY2025.
- **Jewellery business outlook:** Elevated gold prices have an impact on consumer sentiments and hold back on purchases of jewellery products. The purchases in terms of quantity will be lower while realisation growth will remain high. Management is targeting aggressive growth through relevant offers. We expect the jewellery business to deliver 18-20% growth for FY2025. Q1 might see lower growth due to fewer wedding days and elections around the country.
- **International jewellery business:** Around 16 Tanishq stores are present in various locations around the world (including GCC countries and the U.S.). Management expects the count to go up to 30 stores in the near term. Around 80% of international stores are performing better than expected. Revenue of the international jewellery business stood at USD120 million (90% derived from jewellery sales).
- **Watches business:** The company is expecting new launches in wearables in May 2023, which will be premium products. EBIT margins in FY2024 were lower due to higher advertisement and offer spends. In FY2025, the focus will be on achieving strong revenue growth and reducing costs, which will help margins to recover.

Revision in estimates – We have reduced our earnings estimates for FY2025 and FY2026 by 11% and 4%, respectively, to factor in slightly lower growth in the jewellery business and lower EBIT margins.

Our Call

View – Retain Buy with a revised PT of Rs. 3,990: Recent elevated gold prices will have an impact on the profitability of Titan's jewellery business in the near term. Being a large player in the branded jewellery space, Titan has a strong ability to recover the margins in the medium term through relevant strategies. The company is eyeing a revenue CAGR of over 20% during FY2022-FY2027, led by an ambitious growth plan in the medium term. A strong growth outlook, focus on sustained market share gains, and strong balance sheet make it the best play in the discretionary space. Near-term headwinds on margins might lead to weakness in the stock price, which should be considered as an opportunity to buy this quality stock. We maintain our Buy recommendation on the stock with a revised PT of Rs. 3,990. The stock is currently trading at 74x and 58x its FY2025E and FY2026E earnings, respectively.

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	FY24	FY25E	FY26E
Revenue (excluding bullion sales)	37,924	46,751	56,475	66,897
OPM (%)	12.0	10.4	11.0	12.0
Adjusted PAT	3,272	3,494	4,245	5,463
Adjusted EPS (Rs.)	36.9	39.3	47.7	61.4
P/E (x)	95.9	90.0	74.1	57.6
P/B (x)	26.5	33.5	24.0	17.4
EV/EBIDTA (x)	65.0	61.2	50.1	39.0
RoNW (%)	30.9	32.9	37.7	35.1
RoCE (%)	33.7	28.5	29.1	31.2

Source: Company; Sharekhan estimates

Mixed Q4 – Revenue growth at 22% y-o-y; EBITDA margin lower by 100 bps y-o-y

Titan's consolidated revenue (excluding bullion sales) grew 21.9% y-o-y to Rs. 11,229 crore against our expectation of Rs. 11,056 crore and average street expectation of Rs. 11,551 crore. Revenue of the jewellery business grew by 18.8% y-o-y to Rs. 8,998 crore (ex-bullion) and revenue of the watches and wearables business grew 7.9% y-o-y to Rs. 940 crore, while the eyewear business stood largely flat y-o-y at Rs. 166 crore. Titan's subsidiary, CaratLane registered revenue growth of 29% y-o-y to Rs. 748 crore, while TEAL's revenue grew by 2.1x y-o-y to Rs. 373 crore. Consolidated gross margin and EBITDA margin declined by 196 bps and 98 bps y-o-y to 22.3% and 9.5%, respectively. EBITDA margin came in lower than our and average street expectation of 10.5-10.8%. EBIT margin of the jewellery and watches business fell by 106 bps and 274 bps y-o-y to 12.1% and 8.5%, respectively, while EBIT margin of the eyecare business improved by 361 bps y-o-y to 4.8%. EBITDA grew 9.4% y-o-y to Rs. 1,191 crore. However, adjusted PAT grew by 4.8% y-o-y to Rs. 771 crore due to higher financial costs pertaining to the acquisition of CaratLane and ESOP-related costs. PAT came largely in line with our and average street expectation of Rs. 769-770 crore. In FY2024, revenue grew 23.3% y-o-y to Rs. 46,751 crore (ex-bullion), EBITDA margin declined 167 bps y-o-y to 10.4%, and PAT grew 6.8% y-o-y to Rs. 3,496 crore. The board has recommended a dividend of Rs. 11 per share for FY2024.

Jewellery business's revenue growth at 19% y-o-y; EBIT margin fell by 106 bps y-o-y

- Revenue grew 18.8% y-o-y (ex-bullion) to Rs. 8,998 crore with the domestic business growing by 20% y-o-y to Rs. 8,785 crore. In FY2024, revenue (ex-bullion) grew by 20.2% y-o-y to Rs. 38,352 crore. LFL growth came in at 14% for Q4FY2024 and 15% for FY2024.
- Plain gold (including coins) registered higher y-o-y growth compared to studded in Q4FY2024.
- On a y-o-y basis, domestic buyers grew in healthy double digits and the average selling prices (ASP) saw a single-digit increase in Q4FY2024. New buyer contribution was ~54% of jewellery customers for the quarter.
- EBIT margin fell by 106bps y-o-y to 12.1%, largely due to a decline in gross margin, which was impacted by higher offers and increased gold prices. In FY2024, EBIT margin fell by 136 bps y-o-y to 12.3%.
- Tanishq expanded its international presence, adding a new store in Dubai and Chicago, USA, taking Titan's Jewellery international footprint to 16 stores.
- In the domestic market, Tanishq opened 13 new stores and Mia added 16 new stores in Q4FY2024. The domestic network now covers 464 stores of Tanishq, 177 stores of Mia, and 8 stores of Zoya.

Watches and wearables business revenue grew 8% y-o-y; EBIT margins down by 274 bps y-o-y

- Revenue grew 7.9% y-o-y to Rs. 940 crore, with the domestic business growing by 8.5% y-o-y to Rs. 924 crore. In FY2024, revenue grew by 18.4% y-o-y to Rs. 3,904 crore.
- Analog watches grew ~9% y-o-y to Rs. 787 crore, driven by premiumisation and higher average price realisations, while wearables grew ~3% y-o-y with volume doubling y-o-y.
- The premiumisation journey continues to see good progress in Titan and Helios.
- The international brands' analog sales grew by ~22% y-o-y, driven by ~13% y-o-y volume growth.
- Sales via e-commerce grew by ~26% y-o-y with improvement in overall revenue contribution of >20% for both Q4FY2024 and FY2024.
- EBIT margin fell by 274 bps and 236 bps y-o-y to 8.5% and 10.2% in Q4FY2024 and FY2024, respectively.
- In Q4FY2024, division added 10 new stores in Titan World, 14 in Helios and 20 in Fastrack, taking the total stores of Titan World to 665, Helios stores to 237, and Fastrack stores to 218.

Eyecare business revenue flat y-o-y; margin up 361 bps y-o-y

- Revenue stood flat y-o-y at Rs. 166 crore in Q4FY2024 and grew by 5.1% y-o-y to Rs. 724 crore in FY2024.
- Revenue of House Brands (71% of the eyecare portfolio) declined by 3% y-o-y, while the International Brands (IB, 29% of the eyecare portfolio) grew by 4% y-o-y.
- Within categories, lenses grew ~4% y-o-y, while frames and sunglasses fell ~2% and 12% y-o-y, respectively.
- EBIT margin improved by 361 bps y-o-y to 4.8% in Q4FY2024. EBIT margin for FY2024 declined by 248 bps y-o-y to 11.7%.
- In Q4FY2024, Titan Eye+ opened 1 new store in Dubai and 5 Fastrack eyewear stores were converted to Titan Eye+.
- The domestic network now covers 902 stores of Titan Eye+ and 3 stores of Fastrack.

Emerging businesses continued to witness growth momentum

- Emerging businesses comprising fragrances, fashion accessories (F&FA), and Indian dress wear (Taneira) grew by 26% y-o-y to Rs. 97 crore.
- Taneira's sales grew by ~36% y-o-y in Q4FY2024. The brand opened 11 new stores during the quarter, taking the total store count to 73 stores covering 37 cities at FY2024-end.
- F&FA revenue grew by ~13% y-o-y, with fragrances growing by ~9% y-o-y and women's bags registering 97% y-o-y growth (on a low base of Q4FY2023).
- The emerging businesses together recorded a loss of Rs. 22 crore for Q4FY2024 versus a loss of Rs. 33 crore in Q4FY2023.

Subsidiaries' performance

- **CaratLane:**
  - CaratLane grew 29% y-o-y to Rs. 748 crore, driven by 29% y-o-y growth in the studded category (contribution to revenue remained flat y-o-y at ~74%).
  - EBIT came in at Rs. 52 crore, with a margin of 6.9%.
  - CaratLane added 10 new stores (net) in Q4FY2024, taking the total store count to 272 stores across 110 cities pan-India.
- **Titan Engineering and Automation Limited (TEAL):**
  - The business reported revenue of Rs. 373 crore, registering 2.1x y-o-y growth. Within divisions, the Automation Solutions (AS) division grew ~181% y-o-y, whereas Manufacturing Services (MS) division grew by ~33% y-o-y.
  - The AS business received orders worth Rs. 47 crore during the quarter, with the order book position at FY2024-end standing at Rs. 509 crore, which is planned for execution in FY2025.
  - EBIT for the quarter was Rs. 64 crore at a margin of 17.2%.

Results (Consolidated) Rs cr

Particulars	Q4FY24	Q4FY23	y-o-y (%)	Q3FY24	q-o-q (%)
Net sales	**11,229.0**	**9,215.0**	**21.9**	**13,963.0**	**-19.6**
Other operating revenues	1,265.0	1,145.0	10.5	201.0	-
Total Revenue	**12,494.0**	**10,360.0**	**20.6**	**14,164.0**	**-11.8**
Raw material cost	9,708.0	7,847.0	23.7	10,870.0	-10.7
Employee cost	473.0	457.0	3.5	480.0	-1.5
Advertising	268.0	251.0	6.8	338.0	-20.7
Other expenses	854.0	716.0	19.3	911.0	-6.3
Total operating cost	11,303.0	9,271.0	21.9	12,599.0	-10.3
Operating profit	**1,191.0**	**1,089.0**	**9.4**	**1,565.0**	**-23.9**
Other income	159.0	114.0	39.5	136.0	16.9
Interest & other financial cost	201.0	96.0	-	169.0	18.9
Depreciation	158.0	119.0	32.8	154.0	2.6
Profit Before Tax	**991.0**	**988.0**	**0.3**	**1,378.0**	**-28.1**
Tax	220.0	252.0	-12.7	325.0	-32.3
Reported PAT	**771.0**	**736.0**	**4.8**	**1,053.0**	**-26.8**
Adjusted EPS (Rs.)	8.7	8.3	4.8	11.9	-26.8
			bps		**bps**
GPM (%)	22.3	24.3	-196	23.3	-96
EBIDTA margins (%)	9.5	10.5	-98	11.0	-152
NPM (%)	6.2	7.1	-93	7.4	-126
Tax rate (%)	22.2	25.5	-331	23.6	-139

Source: Company, Sharekhan Research

Business-wise revenue Rs cr

Particulars	Q4FY24	Q4FY23	y-o-y (%)	Q3FY24	q-o-q (%)
Jewellery (excluding bullion sales)	8,998	7,576	18.8	11,709	-23.2
Watches	940	871	7.9	982	-4.3
Eyecare	166	165	0.6	167	-0.6
Others	97	77	26.0	112	-13.4
Corporate (Unallocated)	79	64	23.4	101	-21.8
Bullion sales	1,127	1,055	6.8	120	-
Standalone	**11,407**	**9,808**	**16.3**	**13,191**	**-13.5**
CaratLane	748	580	29.0	893	-16.2
TEAL	373	174	-	202	84.7
Others/Consol. Adj.	126	-88	-	15	-
Consolidated	**12,654**	**10,474**	**20.8**	**14,301**	**-11.5**

Source: Company, Sharekhan Research

Business-wise EBIT margin (%)

Particulars	Q4FY24	Q4FY23	bps (y-o-y)	Q3FY24	bps (q-o-q)
Watches	8.5	11.3	-274	5.6	291
Jewellery	12.1	13.2	-106	12.2	-13
Eyecare	4.8	1.2	361	8.4	-356
Standalone	**10.0**	**10.7**	**-75**	**11.2**	**-122**

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Near-term outlook bleak; long-term growth prospects intact

Demand stayed muted in Q4, with a gradual recovery expected from FY2025. In the near term, revenue growth for the branded retail and apparel companies is likely to be largely driven by store expansion, steady demand for premium products, and better consumer sentiments in urban markets/metros. 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 the product portfolio will help branded apparel and retail companies post consistent growth. Better operating leverage, improved efficiencies, and improved mix would help branded apparel and retail companies to post higher margins in the coming years.

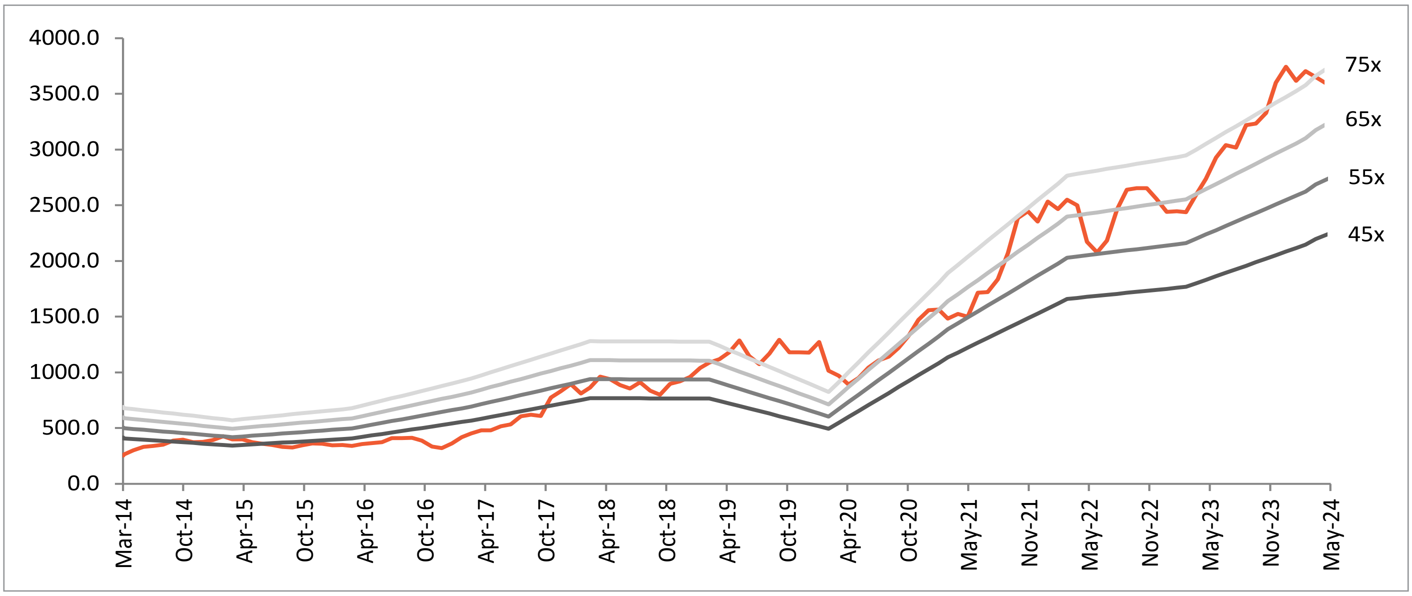
■ Company outlook - Medium-term outlook remains intact

Titan registered strong revenue growth of >25% in FY2024, while margins were lower y-o-y, leading to high single-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. We expect the company's revenue and PAT to register a 20% and 25% CAGR over FY2024-26E, respectively.

■ Valuation - Retain Buy with a revised PT of Rs. 3,990

Recent elevated gold prices will have an impact on the profitability of Titan's jewellery business in the near term. Being a large player in the branded jewellery space, Titan has a strong ability to recover the margins in the medium term through relevant strategies. The company is eyeing a revenue CAGR of over 20% during FY2022-FY2027, led by an ambitious growth plan in the medium term. A strong growth outlook, focus on sustained market share gains, and strong balance sheet make it the best play in the discretionary space. Near-term headwinds on margins might lead to weakness in the stock price, which should be considered as an opportunity to buy this quality stock. We maintain our Buy recommendation on the stock with a revised PT of Rs. 3,990. The stock is currently trading at 74x and 58x its FY2025E and FY2026E earnings, respectively.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer comparison

Companies	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Trent	-	90.7	65.1	70.6	52.0	39.8	24.5	36.7	38.7
Titan Company	90.0	74.1	57.6	61.2	50.1	39.0	28.5	29.1	31.2

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 3,035 stores across 428 towns with a retail area of 4.14 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 eyecare. 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 the 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 the demand of the jewellery and watches division.
- **Increased competition in highly penetrated categories:** Increased competition in highly penetrated categories such as watches or jewellery would act as a threat to revenue growth.

Additional Data

Key management personnel

Arun Roy	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	5.37
2	Vanguard Group Inc.	1.88
3	Life Insurance Corp of India	1.60
4	Blackrock Inc.	1.54
5	SBI Funds Management	1.52
6	Capital Group Cos Inc.	0.91
7	UTI AMC	0.84
8	Sands Capital Management	0.69
9	Morgan Stanley	0.62
10	ICICI Prudential Life Insurance Co.	0.57

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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by BNP PARIBAS

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