

Better placed than earlier; visibility is the key for Titan

We hosted Mr C K Venkataraman – Managing Director of Titan (TTAN) for a discussion on the near-term and long-term prospects of the business. Here are the key takeaways:

- **Near-term outlook getting even better:** After reporting 15% growth in the festive season v/s the comparable period last year, wedding demand is also healthy, as expected. Additionally, demand is being boosted by the dearth of other discretionary consumption opportunities, especially travel and tourism related. Investment demand is also healthy as people prefer to park their money in tangible and relatively safe assets in times of crisis.
- **Long-term opportunity turning more attractive:** The challenges faced by unorganized and other organized players during and post the COVID-led lockdown are further strengthening the case for market share gains for TTAN. Currently, TTAN has less than 10% share in the Indian Jewelry market.
- **Cost savings, technological investments, and getting rid of the additional flab due to COVID:** The company is aggressively focusing on cost savings (across heads) and driving technology (both in selling and on loyalty programs).
- **Other changes** include questioning and monitoring sales, EBITDA, and particularly ROE, performance of all legacy businesses (5–6 years old and beyond).
- **Overall consumer demand** is yet to recover. TTAN has increased its share in all businesses, but the pie needs to grow.

Detailed notes from the call under relevant sections:

Near-term outlook getting even better

- After reporting 15% growth in the festive season v/s the comparable period last year,
 - a) Wedding demand is healthy, as expected. Due to the lack of spending on travel and restricted guests lists, the wedding budget is being used for the purchase of jewelry and apparel.
 - b) Additionally, demand is healthy on account of the dearth of other discretionary opportunities, especially travel and tourism related. Massive decline in international and domestic holidays is boosting gold demand, particularly high-ticket diamond jewelry.
 - c) Investment demand is also healthy as people prefer to park their money in tangible and relatively safe assets in times of crisis.

Intrinsic competitive advantages have increased

- The competitive scenario is improving on account of (a) operational complexities created by COVID on the balance sheet and P&L for unorganized and other organized players as well as (b) customer migration to organized players that offer safety, authenticity, and trust. These challenges faced by the competition during and post the COVID-led lockdown are further strengthening the case for market share gains for TTAN. Currently, the company has less than 10% share in the Indian Jewelry market.
- The softer aspect to TTAN gaining favor is that the company has stood by its vendor partners, franchisees, and distributors, including provisioning insurance and hospitalization expenses for them. Inquiries for new franchises have been strong in the current year. TTAN's visible support to existing franchisees at the beginning of FY21 – through grants and the facilitation of low-interest loans – has instilled confidence in existing and new franchisees.

Titan Company



Mr C K Venkataraman,
Managing Director

Mr Venkataraman has been working with Titan since 1990 and took over as MD on 1st Oct'19. Previously, he served as CEO of the Jewelry division. He has also worked in the Advertising and Marketing functions before becoming the Head of Sales & Marketing for the Titan brand in 2003. He holds a post-graduate diploma in Management from IIM-Ahmedabad.

- The company has enhanced CSR efforts, instead of compromising on them, in these tough times – particularly in 1QFY21 (during the lockdown).

Cost-saving exercise; ROE focus yielding benefits

- Titan's management council, consisting of around 30 people, discovered new components to implement cost savings and improved agility in activities without compromising on TTAN's essential values. The efforts enabled relatively faster recovery v/s peers.
- TTAN is aggressively focusing on cost savings across heads. Older and non-performing businesses such as Favre Leuba are seeing write-offs and/or no incremental investments.

Key aspects of cost savings

- Cost-saving efforts were commenced in Nov'19, well before COVID.
- The management believes some of these savings are sustainable.
- Savings have been seen in all areas, right from sales-related savings (discounts to customers, discounts to trade partners, commissions to credit card companies) to material costs and sub-contracting fees, etc.
- The Eyewear business has done very well on profits in 2QFY21 owing to initiatives taken over the last 1.5 years. Having worked on the cost aspects in FY21, the company is now focusing on achieving an acceptable level of ROE by FY22 and then aims for a steeper growth curve going ahead. To improve ROE, TTAN is focusing on working capital and fixed asset turns. In this business, the focus has shifted to 'eye care' from 'eyewear', leading to increased importance on design – which is helping to boost sales.
- Asset productivity is being reemphasized. The acceptable ranges of return for all of the businesses are being redefined well ahead of cost of capital for the next 18–24 months. This is crucial for a Retail business.
- Other changes include questioning and monitoring sales, EBITDA, and particularly ROE, performance of all legacy businesses (5–6 years old and beyond).

Digital investments keeping TTAN ahead of the curve

- Digital investments began five years ago, with a Chief Digital Officer with a reasonably large team in analytics, website design, omni-channel, and customer relationship management.
- Emphasis was initially on customer experience and then shifted to the back-end. Browsing before purchasing has become common practice.
- The omni-channel for watches was launched last year with the 'book online and pick up from the store' scheme, which has leapfrogged in the last eight months.
- The omni-channel for jewelry is a more recent initiative, but there has been a substantial jump in the form of the video-demonstrated selling of jewelry. 6–7% of jewelry sales are now sourced from video demonstrations. While the final pick up happens at the store, this is an initiative that was unheard of in the past.
- Appointment-based shopping has also become more prevalent.
- The company has also launched the 'Endless Aisle' initiative:
 - a) During peak hours and season, this initiative enables waiting customers to browse for options through a tab, reducing the actual purchase time from 1 hour to 15 mins.
 - b) Over non-peak hours and days, Endless Aisle enables the browsing of products outside of the store or in different sizes than what was available in the store.
- Cross-functional targeted sales are also possible, e.g., Taneira sales for Tanishq customers.

Other strengths

- TTAN has 17–18k sales staff in 1,800 EBOs, with 18m customers in the Encircle database. Of these, 5–6m customers are personally known to the sales staff. This is not common in the Indian Retail industry.
- Technologically as well, TTAN has developed a strong database on all the key events in the life of these 5–6m customers and captured their preferences. Using a forecasting mechanism on what the customers could buy also

supports the human touch mentioned above. The leapfrogging of safety-specific technology has helped consumers shed their reservations.

Design emphasis improving across businesses

- Trust was the first factor that drove customers to Tanishq. However, the role of design has evolved significantly in the last 7–8 years and has now become central to Tanishq, as reflected in customer feedback.
- Tanishq has now, in fact, become the gold standard for design in the industry, especially based on customer requirements.
- Similarly, in their price range, Titan Watches with the Edge variants have been competing very well with peers. Collaborations with certain global peers occasionally also supplements TTAN's own design strength.

Overall consumer demand yet to recover

- The management sounded a note of caution stating overall demand is yet to recover.
- TTAN has increased share in all of its businesses, but the pie needs to grow.

Strategy on under-indexed markets such as Tamil Nadu, Kerala yielding success

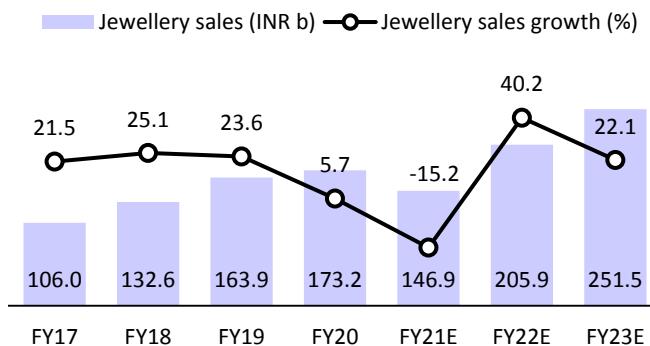
- The dominance of regional jewelry companies and customers' overt value-for-money focus has led to jewelers offering low making charges in the region v/s the rest of the country. This has prevented Tanishq from having a substantial presence in these states.
- Nevertheless, the company shifted focus to Tamil Nadu (TN) two years ago with a niche product-specific strategy and has since been gaining share. This has been achieved without compromising on overall profitability using scale to deliver on EBIT margins.
- TTAN has also had success in Kerala in recent years by focusing on diamond jewelry and value-added gold jewelry.

International business foray

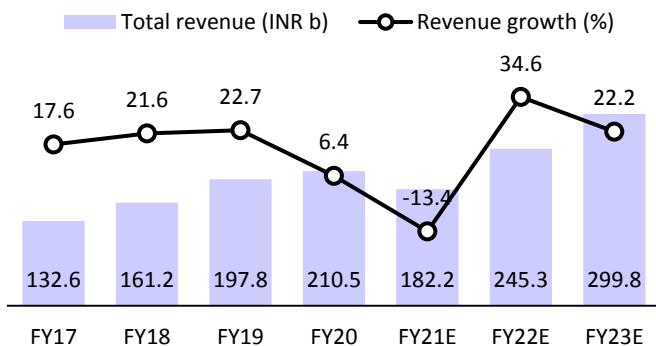
- TTAN wants to make the international business more meaningful over the next five years, with contribution targeted at the mid-single digits as a proportion of sales.
- The company has learned from its earlier venture over 2007–08, wherein it targeted the mainstream fashion-conscious customer. It is now focusing largely on the opportunity from the Non-Resident Indian / Person of Indian Origin category.
- Over 2007–08, while the customer experience was good, the company underestimated the cost of customer acquisition. The Global Financial Crisis hampered plans further. The recent Dubai store is its first small step toward its new venture, and the response has been very encouraging.
- Titan's brand recognition is very strong in the UAE, SA, Kuwait, Oman, Singapore, Malaysia, the Philippines, and the US.
- It would adopt a gradual approach to expansion in the international business.

Valuation and view

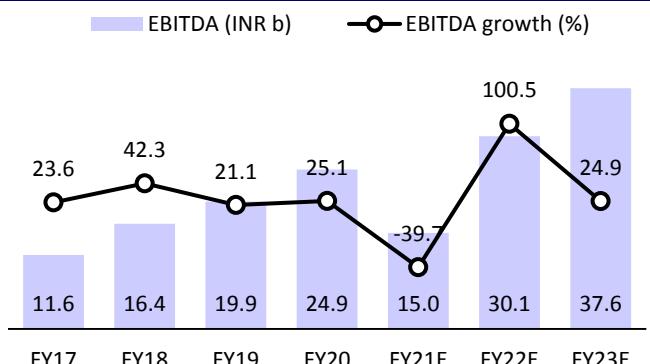
- The call with the CEO on TTAN's improving near-term and longer term prospects was highly informative. It gave us a sound perspective on TTAN's focus on cost savings, its efforts to improve overall RoEs, and its technological boost (the benefits of which are likely to be seen over the next few years).
- TTAN's medium- to long-term earnings growth opportunity is best-of-breed, reflected in the ~24% EPS CAGR over the past three years. TTAN has a strong runway for growth given its market share of less than 10% and the continuing struggles of unorganized and other organized peers.
- We maintain a BUY rating, with TP of INR1,650 – 10% upside to CMP.

Exhibit 1: Despite decline in FY21, Jewelry segment to register 13.2% sales CAGR and...


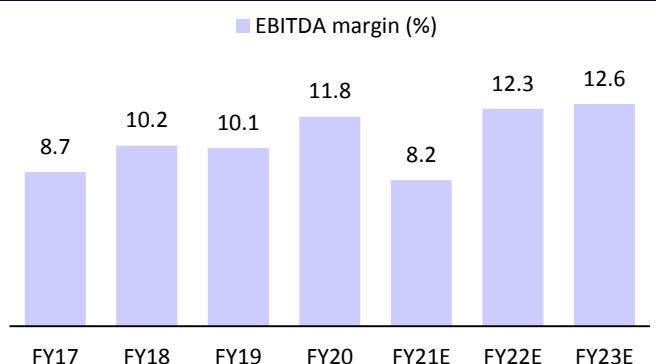
Source: Company, MOFSL

Exhibit 2: ...total revenue to register 12.5% CAGR over FY20–23E


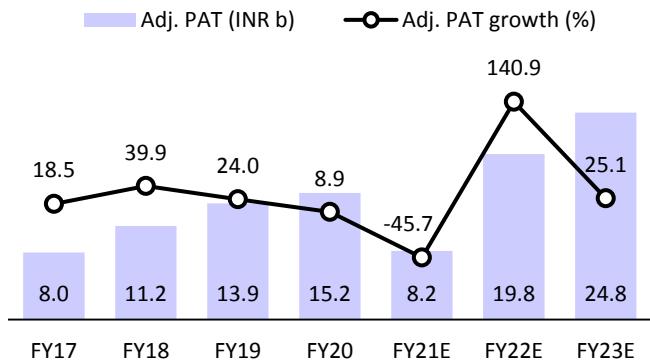
Source: Company, MOFSL

Exhibit 3: EBITDA to register 14.7% CAGR over FY20–23E...


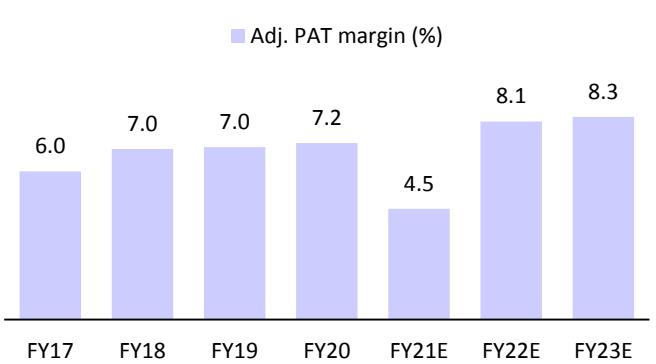
Source: Company, MOFSL

Exhibit 4: ...with margin expansion of 80bp


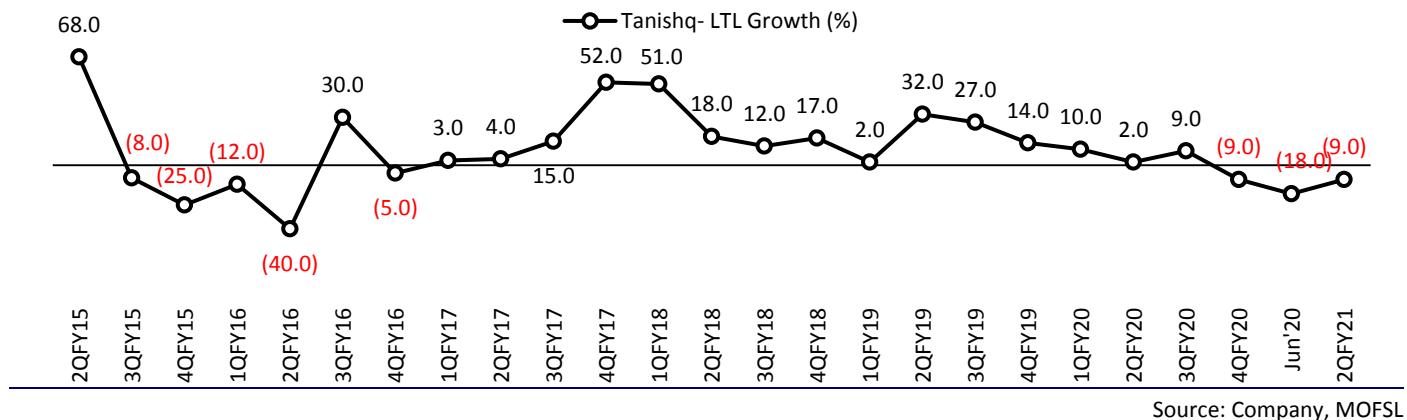
Source: Company, MOFSL

Exhibit 5: Adj. PAT to register 17.8% CAGR over FY20–23E...


Source: Company, MOFSL

Exhibit 6: ...with margin expansion of 110bp


Source: Company, MOFSL

Exhibit 7: Tanishq's LTL quarterly growth trends


Source: Company, MOFSL

Exhibit 8: Quarterly segmental performance

INR m	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21
Total sales	44,872	45,951	59,341	49,451	52,082	46,933	65,501	47,532	20,200	46,010
Watches	5,963	6,788	6,412	5,312	7,161	7,201	6,272	5,583	760	4,010
YoY Growth	15.0%	17.5%	18.2%	7.9%	20.1%	6.1%	-2.2%	5.1%	-89.4%	-44.3%
Jewellery	36,426	36,451	49,970	41,054	41,641	36,500	56,058	38,993	18,240	39,830
YoY Growth	6.3%	29.0%	37.0%	22.3%	14.3%	0.1%	12.2%	-5.0%	-56.2%	9.1%
Eyewear	1,316	1,200	1,295	1,277	1,488	1,542	1,333	1,077	300	940
YoY Growth	16.4%	19.3%	39.7%	17.6%	13.1%	28.5%	2.9%	-15.7%	-79.8%	-39.0%
Others	1,167	1,512	1,664	1,808	1,792	1,690	1,837	1,879	900	1,230
YoY Growth	55.7%	52.1%	65.6%	8.5%	53.5%	11.8%	10.4%	4.0%	-49.8%	-27.2%
Total EBIT	4,778	4,523	6,153	4,640	5,536	4,692	7,183	5,520	-3,090	2,660
Watches	996	1,115	434	123	1,192	1,037	390	543	-1,730	-120
YoY Growth	149.5%	34.9%	-36.8%	-29.3%	19.7%	-7.0%	-10.1%	340.1%	-245.2%	-111.6%
EBIT Margin	16.7%	16.4%	6.8%	2.3%	16.6%	14.4%	6.2%	9.7%	-227.6%	-3.0%
Jewellery	3,842	3,784	6,466	4,989	4,370	3,794	7,297	5,301	-680	2,860
YoY Growth	18.8%	8.6%	76.5%	17.5%	13.7%	0.3%	12.8%	6.2%	-115.6%	-24.6%
EBIT Margin	10.5%	10.4%	12.9%	12.2%	10.5%	10.4%	13.0%	13.6%	-3.7%	7.2%
Eyewear	17	5	-1	-45	-114	20	-67	18	-310	90
YoY Growth	-45.1%	-63.0%	-97.1%	-295.2%	-756.9%	298.0%	5053.8%	-140.3%	171.2%	352.3%
EBIT Margin	1.3%	0.4%	-0.1%	-3.5%	-7.7%	1.3%	-5.0%	1.7%	-103.3%	9.6%
Others	(77)	(380)	(746)	(428)	89	(159)	(437)	(342)	(370)	(170)

Source: Company, MOFSL

Financials and valuations

Income Statement								(INR m)
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Net Sales	112,759	132,608	161,198	197,785	210,515	182,228	245,295	299,836
Change (%)	-5.3	17.6	21.6	22.7	6.4	-13.4	34.6	22.2
Gross Profit	30,949	37,534	44,336	53,843	58,965	49,013	69,595	85,344
Margin (%)	27.4	28.3	27.5	27.2	28.0	26.9	28.4	28.5
Other expenditure	21,601	25,979	27,889	33,928	34,046	33,987	39,464	47,712
EBITDA	9,347	11,555	16,447	19,915	24,919	15,026	30,132	37,633
Change (%)	-19.4	23.6	42.3	21.1	25.1	-39.7	100.5	24.9
Margin (%)	8.3	8.7	10.2	10.1	11.8	8.2	12.3	12.6
Depreciation	982	1,105	1,314	1,628	3,480	3,860	3,904	4,208
Int. and Fin. Charges	424	377	529	525	1,662	2,174	1,783	1,674
Other Income - Recurring	739	705	889	1,829	1,532	1,829	2,039	1,385
Profit before Taxes	8,681	10,777	15,492	19,591	21,310	10,821	26,483	33,136
Change (%)	-17.8	24.1	43.7	26.5	8.8	-49.2	144.7	25.1
Tax	1,710	3,021	4,500	6,150	5,770	2,597	6,674	8,350
Deferred Tax	-206	261	221	467	-388	0	0	0
Tax Rate (%)	22.1	25.6	27.6	29.0	28.9	24.0	25.2	25.2
Profit after Taxes	6,765	8,018	11,213	13,908	15,152	8,224	19,810	24,786
Change (%)	-17.8	18.5	39.9	24.0	8.9	-45.7	140.9	25.1
Margin (%)	6.0	6.0	7.0	7.0	7.2	4.5	8.1	8.3
Reported PAT	6,765	6,991	11,019	13,887	14,927	8,224	19,810	24,786

Balance Sheet								(INR m)
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Share Capital	888	888	888	888	888	888	888	888
Reserves	34,178	41,700	49,993	59,955	65,844	67,401	77,305	87,220
Net Worth	35,066	42,587	50,881	60,842	66,731	68,288	78,193	88,108
Loans	1,131	0	790	318	7,229	5,000	1,000	500
Lease liabilities	0	0	0	0	12,430	12,430	12,430	12,430
Deferred Tax	131	-33	-329	-688	-1,528	-1,528	-1,528	-1,528
Capital Employed	36,327	42,555	51,342	60,472	84,862	84,190	90,095	99,509
Gross Block	13,559	9,858	13,384	15,398	17,692	19,967	22,242	24,517
Less: Accum. Depn.	6,054	1,220	2,137	3,335	4,600	8,460	12,364	16,573
Net Fixed Assets	7,506	8,638	11,247	12,063	13,093	11,508	9,878	7,945
Intangibles	200	3,337	3,495	3,631	3,960	3,960	3,960	3,960
Capital WIP	1,067	1,432	430	290	115	115	115	115
Right of use asset	0	0	0	0	9,349	9,349	9,349	9,349
Investments	26	3,937	16	692	1,136	1,136	1,136	1,136
Curr. Assets, L&A	54,624	66,698	79,694	99,735	106,256	88,896	111,238	131,007
Inventory	44,472	49,257	59,248	70,388	81,030	57,860	72,944	84,736
Account Receivables	1,925	2,076	2,957	4,205	3,116	3,744	5,040	6,161
Cash and Bank Balance	1,442	8,159	6,523	11,057	4,255	10,329	14,595	18,653
Others	6,785	7,205	10,965	14,085	17,855	16,963	18,659	21,458
Curr. Liab. and Prov.	27,095	41,488	43,540	55,939	49,046	30,774	45,581	54,002
Current Liabilities	25,794	40,056	41,909	53,881	46,103	27,689	41,682	49,762
Provisions	1,302	1,433	1,631	2,057	2,943	3,084	3,898	4,240
Net Current Assets	27,529	25,210	36,154	43,796	57,210	58,123	65,657	77,005
Application of Funds	36,327	42,555	51,342	60,472	84,862	84,190	90,095	99,509

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Basic (INR)								
EPS	7.6	9.0	12.6	15.7	17.1	9.3	22.3	27.9
Cash EPS	8.7	10.2	14.0	17.3	18.9	13.6	26.7	32.7
BV/Share	39.5	48.0	57.3	68.5	75.2	76.9	88.1	99.2
DPS	5.4	3.6	4.6	6.0	4.1	4.2	11.2	16.8
Payout %	70.3	39.7	36.4	38.5	23.8	45.0	50.0	60.0
Valuation (x)								
P/E	197.1	166.3	118.9	95.9	88.0	162.1	67.3	53.8
Cash P/E	172.8	146.8	107.2	86.6	79.6	110.3	56.2	46.0
EV/Sales	11.8	10.0	8.2	6.7	6.3	7.3	5.4	4.4
EV/EBITDA	142.6	114.3	80.7	66.4	53.6	88.3	43.8	34.9
P/BV	38.0	31.3	26.2	21.9	20.0	19.5	17.1	15.1
Dividend Yield (%)	0.4	0.2	0.3	0.4	0.3	0.3	0.7	1.1
Return Ratios (%)								
RoE	19.7	20.6	24.0	24.9	23.8	12.2	27.0	29.8
RoCE	20.0	21.0	24.7	25.5	22.5	11.7	24.3	27.5
RoIC	19.9	24.8	29.8	28.0	23.9	11.2	26.7	32.5
Working Capital Ratios								
Debtor (Days)	6	6	7	8	5	8	8	8
Asset Turnover (x)	3.1	3.1	3.1	3.3	2.5	2.2	2.7	3.0
Leverage Ratio								
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0

Cash Flow Statement							(INR m)	
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
OP/(loss) before Tax	8,681	9,733	15,298	19,569	21,017	10,821	26,483	33,136
Int./Div. Received	-95	31	-81	1,140	-171	-1,829	-2,039	-1,385
Depreciation & Amort.	982	1,105	1,314	1,628	3,480	3,860	3,904	4,208
Interest Paid	-152	-136	-113	-512	677	2,174	1,783	1,674
Direct Taxes Paid	2,025	2,768	4,561	6,360	5,577	2,597	6,674	8,350
Incr in WC	1,631	-9,158	12,365	3,036	22,715	-5,161	3,269	7,290
CF from Operations	5,761	17,123	-507	12,429	-3,289	17,590	20,189	21,992
Incr in FA	2,522	2,511	2,993	2,634	3,456	2,275	2,275	2,275
Free Cash Flow	3,239	14,613	-3,500	9,796	-6,930	15,315	17,914	19,717
Investments	-55	3,254	-4,115	177	-3,183	0	0	0
Others	-1,058	2,986	-273	197	638	1,472	3,829	2,681
CF from Invest.	-1,409	-8,750	1,395	-3,007	-1,096	-3,747	-6,104	-4,956
Incr in Debt	0	0	0	0	6,934	-2,229	-4,000	-500
Dividend Paid	3,944	36	2,774	3,974	5,356	3,551	4,037	10,805
Others	1,104	1,621	-249	915	3,995	2,174	1,783	1,674
CF from Fin. Activity	-5,048	-1,656	-2,524	-4,888	-2,417	-7,954	-9,820	-12,979
Incr/Decr of Cash	-696	6,717	-1,637	4,534	-6,802	5,890	4,265	4,058
Add: Opening Balance	2,138	1,442	8,159	6,523	11,057	4,440	10,330	14,595
Closing Balance	1,442	8,159	6,523	11,057	4,255	10,330	14,595	18,652

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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