

View: Expect recovery ahead of festive season

- Titan's Q1FY22 operational performance was below our estimate as we anticipated better operational efficiency during the quarter.
- As ~90% of the markets are now open, we expect improvement in sales growth going ahead. Higher growth in the jewellery segment would be driven by (1) pent up demand as stores were operational for very limited time/closed during Q1FY22 ; (2) buying ahead of festive season.
- Though studded jewellery contribution improved at 22% vs 18% in Q1FY21, it remained low compared to Q1FY20 (25%). Marketing activities and opening up of markets are expected to drive studded growth in the coming quarters.
- We have downward revised FY22E EPS estimates to Rs 19.5 (-5.4%) to factor in Q1FY22 performance. However, we have maintained our FY23E EPS estimates as we believe that all segments would improve performance with the opening of markets. We maintain Buy, with revised TP of Rs 1,925 (65x FY23E).

Remain optimistic on the jewellery sales growth

Jewellery business reported 109% YoY revenue growth in Q1FY22 (excluding bullion), primarily led by 124% increase grammage growth. Considering sharp drop during the last year, the volumes are still half compared to normalized level of FY20. Further gold prices have moved up by almost 46% over past couple of years. With the opening of markets, we believe that the company would recover volumes completely at least by FY23E. Hence we continue to maintain 24% CAGR over FY21-23E for Titan. Festive and wedding season are expected triggers for sales growth.

Results missed estimate

Net revenues grew by 74.5% YoY to Rs 32.5bn – came below our estimate. GM increased 60bps compared to Q1FY21. A 1360/370bps decline in other expense/employee cost was primarily due to better operating leverage on a favourable base. Consequently, operating margin improved to +4.4% compared to -13.2% in the base quarter. APAT increased to Rs 610mn compared to a loss of Rs 2.7bn in Q1FY21.

Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	32,490	18,620	74.5	71,350	(54.5)
Total Expense	31,050	21,080	47.3	63,400	(51.0)
EBITDA	1,440	(2,460)	(158.5)	7,950	(81.9)
Depreciation	830	820	1.2	820	1.2
EBIT	610	(3,280)	(118.6)	7,130	(91.4)
Other Income	650	390	66.7	340	91.2
Interest	440	460	(4.3)	450	(2.2)
EBT	820	(3,350)	(124.5)	7,020	(88.3)
Tax	210	(650)	(132.3)	1,730	(87.9)
RPAT	611	(2,699)	(122.6)	5,291	(88.5)
APAT	611	(2,699)	(122.6)	5,291	(88.5)
			(bps)		(bps)
Gross Margin (%)	21.2	20.6	61	21.4	(12)
EBITDA Margin (%)	4.4	(13.2)	1764	11.1	(671)
NPM (%)	1.9	(14.5)	1638	7.4	(554)
Tax Rate (%)	25.6	19.4	621	24.6	97
EBIT Margin (%)	1.9	(17.6)	1949	10.0	(812)

CMP	Rs 1,800
Target / Upside	Rs 1,925 / 7%
NIFTY	16,131

Scrip Details

Equity / FV	Rs 888mn / Rs 1
Market Cap	Rs 1,598bn
	USD 22bn
52-week High/Low	Rs 1,859/ 1,049
Avg. Volume (no)	1,630,520
Bloom Code	TTAN IN

Price Performance	1M	3M	12M
Absolute (%)	3	28	67
Rel to NIFTY (%)	(1)	16	23

Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	52.9	52.9	52.9
MF/Banks/FIs	11.2	11.5	11.5
FIs	18.6	18.1	18.1
Public / Others	17.3	17.5	17.5

Valuation (x)

	FY21A	FY22E	FY23E
P/E	157.6	92.4	60.8
EV/EBITDA	96.7	58.1	40.3
ROE (%)	12.2	21.0	26.3
RoACE (%)	10.6	15.6	20.1

Estimates (Rs mn)

	FY21A	FY22E	FY23E
Revenue	206,020	254,522	317,382
EBITDA	17,010	28,286	40,797
PAT	10,140	17,298	26,287
EPS (Rs.)	11.4	19.5	29.6

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Segmental performance was a mixed bag

- Jewellery exhibited 62.1% YoY revenue growth at Rs 28.9bn and EBIT of Rs 2.1 bn, compared to a loss of Rs 540mn. Grammage growth stood at 124% while price growth was at 2%.
- Revenue from Watches business increased from Rs 750mn to Rs 2.9bn. The segment posted EBIT loss of Rs 560mn vs Rs 1.6bn in the base quarter. Volume growth stood at 466% on low base implies 60% decline over Q1FY20.
- Eyewear reported 123% YoY increase to Rs 670mn and registered EBIT loss of Rs 130mn compared to a loss of Rs 310mn in Q1FY21.

Exhibit 1: Segmental Performance

Revenue (Rs mn)	Q1FY22	Q1FY21	YoY %	Q4FY21	QoQ %
Jewellery	28,910	17,830	62.1	64,220	(55.0)
Watches	2,920	750	289.3	5,550	(47.4)
Eyewear	670	300	123.3	1,270	(47.2)
Others	140	40	250.0	350	(60.0)
EBIT (Rs mn)					
Jewellery	2,070	(540)	NA	7,030	(70.6)
Watches	(560)	(1,640)	NA	460	NA
Eyewear	(130)	(310)	NA	230	NA
Others	(160)	(180)	NA	(90)	NA
EBIT Margin (%)					
Jewellery	7.2	(3.0)	1,020	10.9	(380)
Watches	(19.2)	(218.7)	NA	8.3	NA
Eyewear	(19.4)	(103.3)	NA	18.1	NA
Others	(114.3)	(450.0)	NA	(25.7)	NA

Source: DART, Company

Exhibit 2: Actual V/s DART estimates

Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	32,490	40,579	(19.9)	Revenues missed our estimate as we anticipated higher growth in bullion sales during the quarter compared to decline.
EBITDA	1,440	1,821	(20.9)	Cascading effect of lower sales
EBITDA margin %	4.4	4.5	(10)	
APAT	610	679	(10.2)	Cascading effect of lower revenue and EBITDA

Source: Company, DART

Exhibit 3: Change in estimates

Particulars (Rs mn)	FY22E			FY23E		
	New	Old	Change	New	Old	Change
Net Revenue	254,522	262,116	(2.9)	317,382	317,382	0.0
EBITDA	28,286	29,630	(4.5)	40,797	40,797	0.0
EBITDA Margin (%)	11.1	11.3	-20 bps	12.9	12.9	0 bps
APAT	17,298	18,293	(5.4)	26,287	26,287	0.0
EPS (Rs)	19.5	20.6	(5.4)	29.6	29.6	0.0

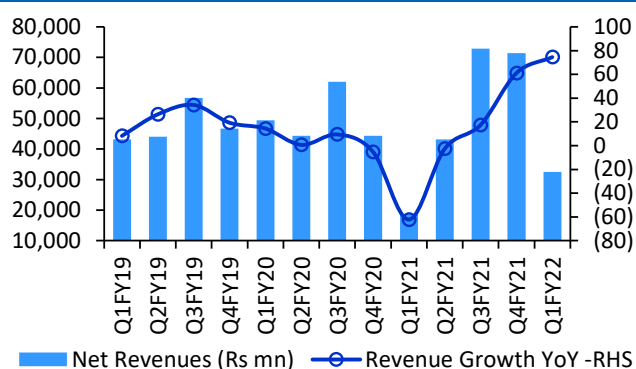
Source: Company, DART

We have revised our FY22E revenue estimates to factor in Q1FY22 performance. However, we have maintained our FY23E estimates as we believe that the company would recover at a faster pace with improvement in business conditions.

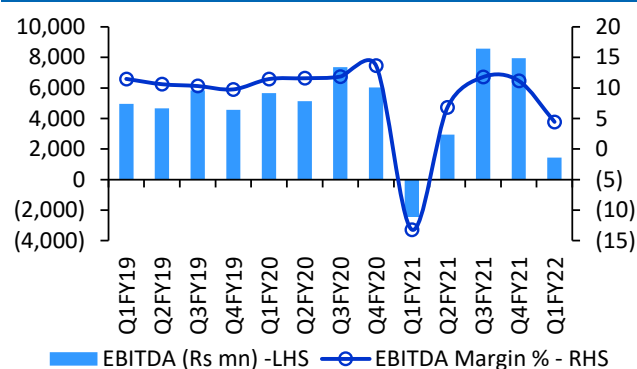
Other Conference call highlights

- With gradual lifting of restrictions on stores, the sales bounced back strongly towards end of Q1FY22 with good momentum in Q2 till date. This year, Watches & Wearables and Eyewear segments have also witnessed rapid recovery in walkins and sales with the re-opening of stores.
- Revenue contribution in Q1FY22: 50%, 10% and 40% from April, May and June'21 months respectively. Sales in April'20 were nil.
- Total store operational days in Jewellery stood at 47% in Q1. Like last year, due to lockdowns, the division lost sales related to 'Akshaya Tritiya' festival. However, the division is gaining good traction in new customers. While GHS fresh enrolments were adversely impacted due to the lockdowns, it still witnessed YoY growth and refund requests have been low and comparable to pre-pandemic levels.
- The company has changed gold hedging method to better manage the risk due to volatility of gold price fluctuation. Titan decided to adopt a 'fair value hedge accounting methodology' as permitted under the Ind-AS to hedge its gold inventory for fluctuations in the price of gold instead of cash flow arising out of sale of gold in future.
- The new hedging methodology is adopted from 1 July 2021. Titan Commodity Trading Limited (TCTL) is incorporated during the quarter for the hedging of the Gold.
- To support franchise during the pandemic, the company took some initiatives like loans grants and created buffer to grow during pandemic time. Barring this, there was no structural change in retailing and distribution model.
- GHS scheme enrolment has picked post reopening of markets during June and July. The company has initiated new campaign (localised) - Bharat markets in Uttar Pradesh, Bihar, Jharkhand to accelerate GHS sales. The campaign is expected to spread in other states in the coming months.
- The management believes that the pressures on sales is primarily due to closing of markets, but not due to economic factors. Hence, pent up demand is expected post re-opening of markets.
- Due to new hallmarking compulsion, discounting is expected from peers and industry saw good growth in Jul'21 due to this. However, management believes that the margins would not be impacted due mandatory hallmarking.
- TCL North America Inc. was incorporated during the quarter, with the objective of carrying on the business of jewelry retailing. Despite earlier weak response in the geography, the company re-entered the market after a decade due to favorable factors like (1) economic growth during the decade was strong (2) Indian population has increased significantly and (3) high opportunity in USD 3-4bn market.
- CaratLane recorded total income of Rs 1590mn, up 263% YoY on weak base, despite lockdown in Q1FY22. Online sales contributed ~50% of the overall CaratLane sales. CaratLane is currently present in 44 cities with 121 store and has high penetration in mere 16 cities. Hence management believes that the store growth opportunity in CaratLane is very high.
- Studded activation has begun in mid-July in Delhi and in the last week of July in other markets. Barring 2-3 states, response is good in other geographies.

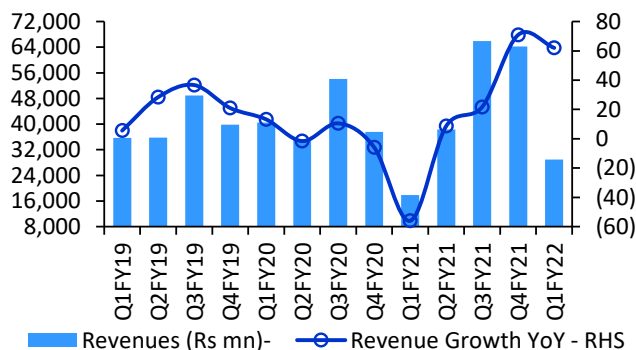
- The company targets to open 34-35 Tanishq stores during FY22, opened 11 so far. Most of the store would be L2/L3 format in small towns. During the past 2-3 years, Titan has added new stores mostly across tier 2/3 towns. The company intends to continue expanding in these geographies going ahead.
- Share of old gold exchange was muted since last year due to people's sustained interest in bullion and curtailed wedding purchases. Majorly, gold exchange happens during wedding purchases. The gold exchange percentage contribution to sale was 24% in Q1FY22 compared to 30% in Q1FY20.

Exhibit 4: Revenue Performance


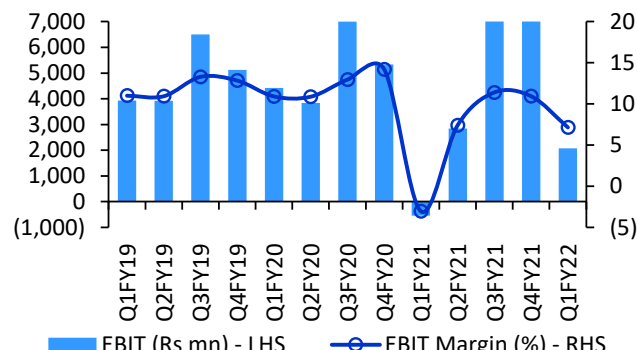
Source: DART, Company

Exhibit 5: EBITDA & EBITDA Margin


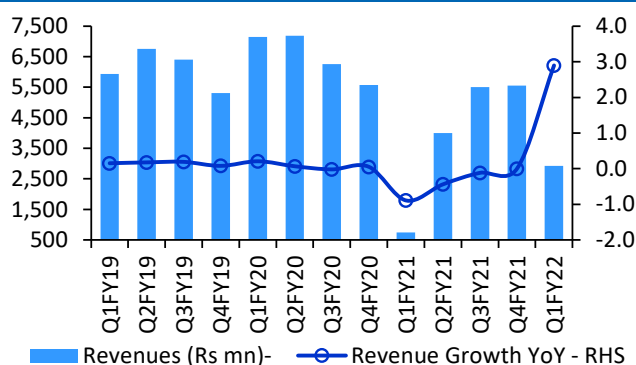
Source: DART, Company

Exhibit 6: Jewellery Revenue Performance


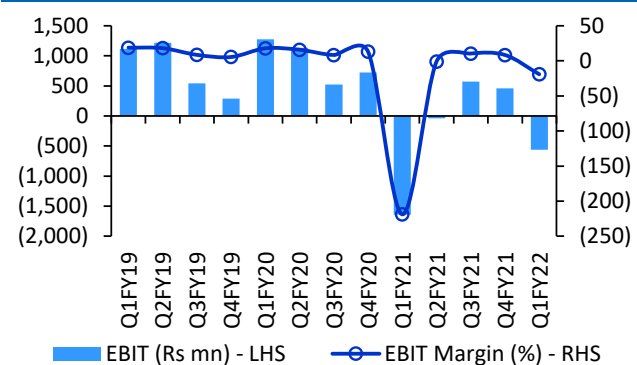
Source: DART, Company

Exhibit 7: Jewellery EBIT Performance


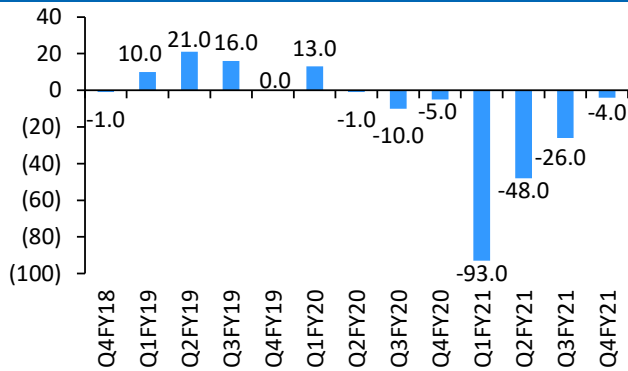
Source: DART, Company

Exhibit 8: Watch Revenue Performance


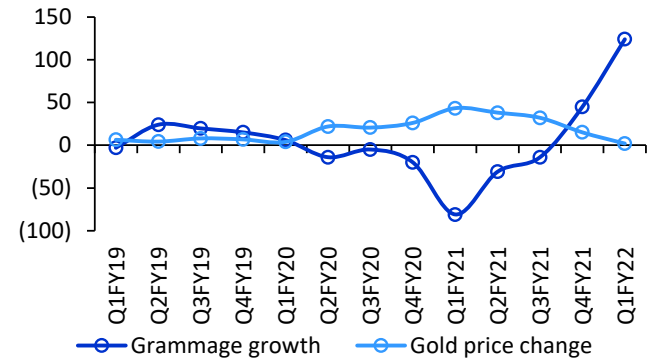
Source: DART, Company

Exhibit 9: Watch EBIT Performance


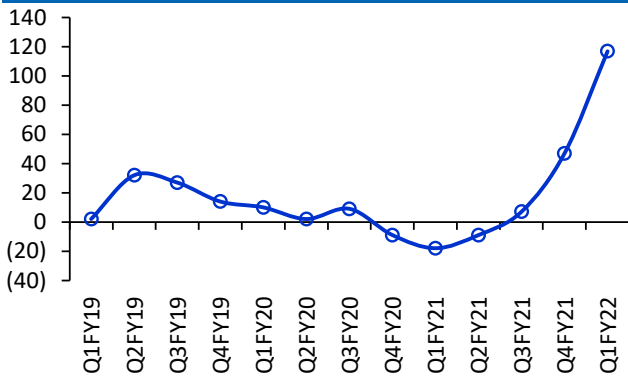
Source: DART, Company

Exhibit 10: Watch Volumes %


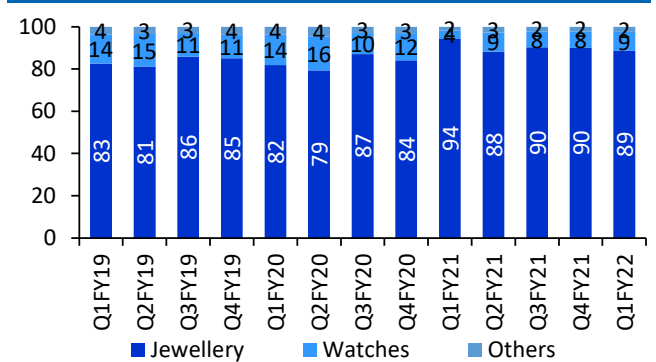
Source: DART, Company (Note: 466% in Q1FY22)

Exhibit 11: Gold Grammage


Source: DART, Company

Exhibit 12: Tanishq Like to Like Growth


Source: DART, Company (Q1FY21 exhibit June'20 figures)

Exhibit 13: Segmental Revenue Contribution


Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Revenue	200,096	206,020	254,522	317,382
Total Expense	175,919	189,010	226,236	276,585
COGS	145,118	157,690	189,990	236,181
Employees Cost	10,401	9,110	12,668	13,000
Other expenses	20,400	22,210	23,579	27,404
EBIDTA	24,177	17,010	28,286	40,797
Depreciation	3,097	3,310	3,148	3,041
EBIT	21,080	13,700	25,138	37,756
Interest	1,495	1,810	3,662	4,229
Other Income	1,464	1,810	1,901	1,996
Exc. / E.O. items	0	(1,370)	0	0
EBT	21,050	12,330	23,376	35,523
Tax	5,873	3,560	6,078	9,236
RPAT	15,176	8,770	17,298	26,287
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	15,176	10,140	17,298	26,287

Balance Sheet

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Sources of Funds				
Equity Capital	888	888	888	888
Minority Interest	0	0	0	0
Reserves & Surplus	67,361	74,640	88,536	109,467
Net Worth	68,249	75,528	89,424	110,355
Total Debt	32,694	52,430	52,930	53,430
Net Deferred Tax Liability	(1,720)	(1,050)	(1,050)	(1,050)
Total Capital Employed	99,222	126,908	141,304	162,735

Applications of Funds

Net Block	20,564	19,429	17,921	17,120
CWIP	107	170	170	170
Investments	9,831	35,120	35,120	35,120
Current Assets, Loans & Advances	94,893	102,829	120,621	148,968
Inventories	77,406	79,840	94,132	118,626
Receivables	2,144	2,910	3,309	4,374
Cash and Bank Balances	3,560	5,120	7,063	6,837
Loans and Advances	8,711	11,048	12,206	15,221
Other Current Assets	3,071	3,910	3,910	3,910
Less: Current Liabilities & Provisions	26,173	30,640	32,528	38,643
Payables	5,099	6,950	8,064	9,661
Other Current Liabilities	21,074	23,690	24,465	28,982
<i>sub total</i>				
Net Current Assets	68,720	72,189	88,092	110,325
Total Assets	99,222	126,908	141,304	162,735

E – Estimates

Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	27.5	23.5	25.4	25.6
EBIDTA Margin	12.1	8.3	11.1	12.9
EBIT Margin	10.5	6.6	9.9	11.9
Tax rate	27.9	28.9	26.0	26.0
Net Profit Margin	7.6	4.3	6.8	8.3
(B) As Percentage of Net Sales (%)				
COGS	72.5	76.5	74.6	74.4
Employee	5.2	4.4	5.0	4.1
Other	10.2	10.8	9.3	8.6
(C) Measure of Financial Status				
Gross Debt / Equity	0.5	0.7	0.6	0.5
Interest Coverage	14.1	7.6	6.9	8.9
Inventory days	141	141	135	136
Debtors days	4	5	5	5
Average Cost of Debt	5.4	4.3	7.0	8.0
Payable days	9	12	12	11
Working Capital days	125	128	126	127
FA T/O	9.7	10.6	14.2	18.5
(D) Measures of Investment				
AEPS (Rs)	17.1	11.4	19.5	29.6
CEPS (Rs)	20.6	15.1	23.0	33.0
DPS (Rs)	6.0	4.0	6.0	6.0
Dividend Payout (%)	35.3	35.0	31.0	20.4
BVPS (Rs)	76.9	85.1	100.7	124.3
RoANW (%)	23.3	12.2	21.0	26.3
RoACE (%)	18.2	10.6	15.6	20.1
RoAIC (%)	24.9	12.6	19.6	26.0
(E) Valuation Ratios				
CMP (Rs)	1800	1800	1800	1800
P/E	105.3	157.6	92.4	60.8
Mcap (Rs Mn)	1,597,685	1,597,685	1,597,685	1,597,685
MCap/ Sales	8.0	7.8	6.3	5.0
EV	1,626,819	1,644,995	1,643,552	1,644,278
EV/Sales	8.1	8.0	6.5	5.2
EV/EBITDA	67.3	96.7	58.1	40.3
P/BV	23.4	21.2	17.9	14.5
Dividend Yield (%)	0.3	0.2	0.3	0.3
(F) Growth Rate (%)				
Revenue	4.9	3.0	23.5	24.7
EBITDA	20.8	(29.6)	66.3	44.2
EBIT	13.1	(35.0)	83.5	50.2
PBT	9.2	(41.4)	89.6	52.0
APAT	5.1	(33.2)	70.6	52.0
EPS	5.1	(33.2)	70.6	52.0

Cash Flow

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	(2,881)	39,570	12,101	11,098
CFI	(617)	(25,410)	(1,640)	(2,240)
CFF	(2,952)	(12,600)	(8,518)	(9,084)
FCFF	(5,905)	38,530	10,461	8,858
Opening Cash	10,010	3,560	5,120	7,063
Closing Cash	3,560	5,120	7,063	6,837

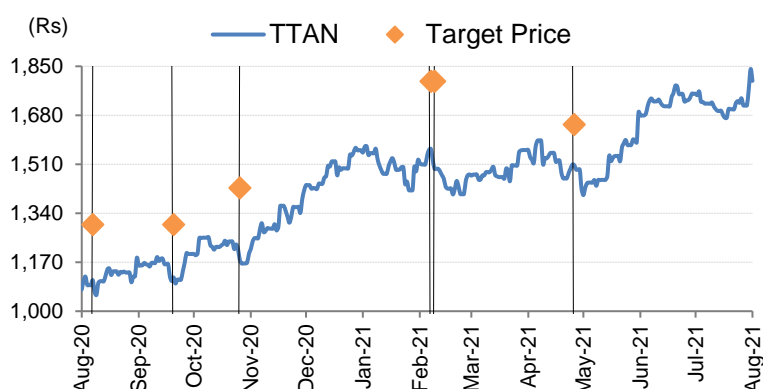
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-20	Buy	1,301	1,108
Sep-20	Buy	1,301	1,117
Oct-20	Buy	1,428	1,178
Feb-21	Buy	1,798	1,563
Feb-21	Buy	1,798	1,494
Apr-21	Buy	1,648	1,507

*Price as on recommendation date

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