

Titan Company (TTAN IN)

Rating: ACCUMULATE | CMP: Rs1,800 | TP: Rs1,916

On track but Watch for 3rd Wave: Accumulate

Quick Pointers:

- Jewellery (ex Bullion sale of Rs4.2bn) grew 122% while Watches and Eyewear segments witnessed rapid recovery with the re-opening of stores.
- Incorporated TCL North America, to cater the NRI and PIO segment in US

We are marginally increasing FY22/23 EPS by 0.64%/1.94% given strong demand recovery in June/July and faster recovery in Eyewear and Watches relative to last year. TTAN remains positive on recovery given rising vaccination, although a couple of large south Indian states remain a drag. We believe that with 1) Rise in wedding jewellery sales and ticket size in 2H22, 2) Improvement in studded ratio, 3) Healthy recovery in watches and Eyewear and 4) Implementation of mandatory Hallmarking will be major growth drivers for TTAN going forward. We remain positive on the long term structural story on account of market share gains, strong balance sheet, franchisee based model, strong brand, and strong head start in executing strategies like customer safety and Omni Channel across product segments. Foray into the US will provide long term growth potential. We maintain ACCUMULATE with DCF based TP of Rs 1916 (Rs 1869 earlier). Possibility of 3rd Covid wave during festival season is a key near term risk to our call.

- Net sales up 122.2% Jewellery volumes up 124%:** Net sales up 122.2% to Rs27.8bn (excluding Bullion) (Est Rs28.01bn) led by ~4x growth in watches, 62.1% growth in jewellery sales and ~2x growth in eyewear. EBITDA of Rs1.44bn (Est Rs1.40bn) from a negative EBITDA of Rs.2.4bn last yr. EBITDA margin at 4.4% (Est 5.0%). Adj. PAT at Rs610mn (Est Rs554mn). Jewellery division gaining traction in new customers and mix in total buyers has reached the pre-pandemic levels. Added net of 13 stores in this quarter - 4 Jewellery, 6 Titan Eye+, 4 Caratlane and 1 closure in Watches.
- Jewellery** Jewellery sales 62.1% to Rs28.91bn (including bullion sales of Rs4.24bn) and EBIT at Rs2.07bn from Rs-540mn last year. Margins at 6.0% from -3.0%. Volume was up by 124%. Studded ratio stood at 22% vs 18% last year. Tanishq added 5 stores (20000 sq. ft. of retail space) this quarter
- Watches** Watches sales grew 3.89x at Rs2.92bn, EBIT at -560mn from -1640mn. Volumes up by 124%, EBIT at -560mn from -1640mn last yr. The division added 3 Helios stores and shutdown 2 FastTrack stores in Q1'22, on net basis. **WOT** reported LTL growth of 91%, **Helios** 78% and **LFS** 324% on a low base of last year.
- Eyewear** sales grew 123% to Rs670mn from Rs300mn last year while EBIT at Rs-130mn vs -310mn in 1QFY2. Added 6 new Titan Eye Stores and registered 47% LTL growth
- Key Concall Highlights:** 1) Tanishq to enter North America targeting NRI/PIO consumers which is a \$3-4bn market opportunity 2) Plans to open 34 Tanishq stores in India (11 already opened) in FY22 3) Opened 622 eye wear stores

August 4, 2021

Q1FY22 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,916		1,869	
Sales (Rs. m)	2,61,058	3,11,842	2,56,736	3,06,223
% Chng.	1.7	1.8		
EBITDA (Rs. m)	27,266	39,364	27,087	38,632
% Chng.	0.7	1.9		
EPS (Rs.)	20.1	30.3	20.0	29.8
% Chng.	0.6	1.9		

Key Financials - Standalone

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. bn)	200	206	261	312
EBITDA (Rs. bn)	24	17	27	39
Margin (%)	12.2	8.3	10.4	12.6
PAT (Rs. bn)	15	10	18	27
EPS (Rs.)	17.1	11.4	20.1	30.3
Gr. (%)	5.1	(33.2)	76.3	50.6
DPS (Rs.)	5.0	3.5	4.5	5.0
Yield (%)	0.3	0.2	0.3	0.3
RoE (%)	23.3	14.1	21.5	26.4
RoCE (%)	24.4	13.3	20.8	28.1
EV/Sales (x)	8.1	7.8	6.1	5.1
EV/EBITDA (x)	66.2	94.4	58.5	40.2
PE (x)	105.3	157.6	89.4	59.3
P/BV (x)	23.4	21.2	17.6	14.1

Key Data

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52-W High / Low	Rs.1,859 / Rs.1,049
Sensex / Nifty	54,370 / 16,259
Market Cap	Rs.1,598bn/ \$ 21,535m
Shares Outstanding	888m
3M Avg. Daily Value	Rs.5669.96m

Shareholding Pattern (%)

Promoter's	52.90
Foreign	18.41
Domestic Institution	9.87
Public & Others	18.82
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.6	18.9	67.4
Relative	(1.0)	10.7	16.0

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and plans to open 1000 stores in 2-3years 4) Overall higher footfalls seen this quarter due to better consumer sentiment & vaccinations 5) Loss due to custom duty reduction offset by FIFO gains this quarter 6) Hallmarking good for industry, will bring transparency 7) Hallmarking good for Titan as will bring making charges at par for all players 8) Studded mix in retail at 25% in 1Q vs 21% 1QFY21 vs 28% in 1QFY20 9) Change in hedge accounting will reduce fluctuation in profitability going forward

Exhibit 1: Q1FY22 Results: Sales up 122% excluding bullion sales of Rs4.24bn

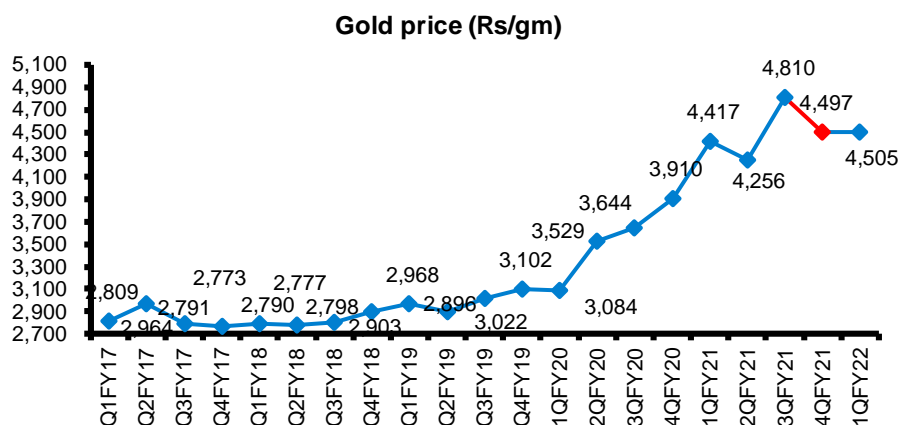
Y/e March (Rs mn)	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	FY21	FY20	YoY gr. (%)
Net Sales	32,490	18,620	74.5	71,350	2,06,020	2,00,096	3.0
Gross Profit	6,900	3,840	79.7	15,240	48,330	54,978	(12.1)
% of NS	21.2	20.6	0.6	21.4	23.5	27.5	(4.0)
Advt & Sales Pro	370	160	131.3	790	2,320	4,767	(51.3)
% of NS	1.1	0.9		1.1	1.1	2.4	
Total Expenses	31,050	21,080	47.3	63,400	1,89,010	1,75,919	7.4
% of NS	95.6	113.2		88.9	91.7	87.9	
EBITDA	1,440	(2,460)	(158.5)	7,950	17,010	24,177	(29.6)
Margins %	4.4	(13.2)	17.6	11.1	8.3	12.1	(3.8)
Depreciation	830	820	1.2	820	3,310	3,097	6.9
Interest	440	460	(4.3)	450	1,810	1,495	21.1
Other Income	650	390	66.7	340	1,810	1,464	23.6
PBT	820	(3,350)	(124.5)	7,020	13,700	21,050	(34.9)
Tax	210	(650)	(132.3)	1,730	3,560	5,873	(39.4)
Tax rate %	25.6	19.4		24.6	26.0	27.9	
Adjusted PAT	610	(2,700)	(122.6)	5,290	10,140	15,176	(33.2)

Source: Company, PL

Exhibit 2: Jewellery and Watches drive overall growth

(Rs m)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22
Total Sales	49,471	44,447	62,167	44,604	18,920	43,540	72,990	71,390	32,640
Watches	7,146	7,187	6,253	5,568	750	4,000	5,500	5,550	2,920
YoY Growth	20.4%	6.4%	-2.4%	4.9%	-89.5%	-44.3%	-12.0%	-0.3%	289.3%
Jewellery	40,474	35,278	54,087	37,544	17,830	38,370	65,890	64,220	28,910
YoY Growth	13.3%	-1.5%	10.6%	-5.8%	-55.9%	8.8%	21.8%	71.1%	62.1%
Eyewear	1,488	1,542	1,333	1,077	300	940	1,240	1,270	670
YoY Growth	13.1%	28.5%	2.9%	-17.4%	-79.8%	-39.0%	-7.0%	17.9%	123.3%
Others	363	440	494	415	40	230	360	350	140
YoY Growth	37.9%	33.2%	32.6%	12.5%	-89.0%	-47.7%	-66.4%	-15.6%	250.0%
Total EBIT	5,397	4,897	7,375	5,870	-2,670	2,800	8,230	7,630	1,220
Watches	1,277	1,134	521	722	-1,640	-40	570	460	-560
YoY Growth	14.7%	-6.9%	-4.1%	149.3%	-228.5%	-103.5%	9.4%	-36.3%	-65.9%
EBIT Margin	17.9%	16.7%	8.3%	13.0%	-218.7%	-1.0%	10.4%	8.3%	-12.0%
Jewellery	4,420	3,841	7,013	5,339	-540	2,850	7,520	7,030	2,070
YoY Growth	12.4%	-2.0%	7.8%	4.2%	-112.2%	-25.8%	7.2%	31.7%	-483.3%
EBIT Margin	10.9%	11.0%	13.0%	14.2%	-3.0%	7.4%	11.4%	10.9%	6.0%
Eyewear	-114	20	-67	18	-310	90	220	230	-130
YoY Growth	-756.9%	-299.0%	358.9%	-209.0%	171.2%	352.3%	-428.4%	1170.7%	-58.1%
EBIT Margin	-7.7%	1.0%	-5.0%	4.4%	-103.3%	9.6%	17.7%	18.1%	5.0%
Others	(185)	(98)	(92)	(209)	(180)	(100)	(80)	(90)	(160)

Source: Company, PL

Exhibit 3: Average Gold Prices up 2% YoY


Source: Bloomberg, PL

Exhibit 4: Grammage increases 124%, studded share at 22%

	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22
Jewellery									
Volume Gr %	6	-14	-5	-20	-81	-31	-14	45	124
Studded Share %	25	38	27	37	18	26	26	30	22
Sales Gr %	13.3%	-1.5%	10.6%	-5.8%	-55.9%	-25.8%	21.8%	71.1%	62.1%
Tanishq									
Sales Gr %	16	7	15	-4	-23	-4	13	63	115
LTL Growth %	10	2	9	-9	-18	-9	7	47	117
Stores	299	308	321	327	333	341	351	353	358
Area (sq. Ft)	11,20,000	11,60,000	12,00,000	12,40,000	12,50,000	12,90,000	13,40,000	13,60,000	13,80,000

Source: Company, PL

Exhibit 5: Watches improve 291% on a low base of 1Q last year

	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22
Watches									
Sales Growth %	20.4	6.4	-2.4	4.9	-89.5	-44.3	-12.0	-0.3	291.3
Volume Growth %	13	-1	-10	-5	-93	-48	-26	-4	466
World Of Titan									
Sales Growth %	6	-1	11	-7	-59	-50	-14	8	86
LTL Sales growth %	6	-3	11	-9	-51	-49	-15	7	91
Stores	488	489	492	499	505	506	499	511	509
Helios									
Sales Growth %	8	9	23	10	-51	-34	-9	10	73
LTL Sales growth %	5	1	12	-3	-29	-30	-14	6	78
Stores	81	86	88	92	93	96	98	103	106
Fastrack									
Sales Growth %	4	-7	1	-10	-64	-50	-24	-4	63
LTL Sales growth %	1	-12	-4	-12	-58	-47	-22	-2	80
Stores	175	180	179	183	192	180	169	168	166
LFS									
Sales Growth %	16	6	8	-9	-86	-66	-23	-3	323
LTL Sales growth %	12	1	3	-15	-84	-67	-23	-3	324

Source: Company, PL

Exhibit 6: Eyewear likely to gain momentum from 6 new stores addition this quarter

Eyewear	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22
Sales Gr %	20	35	11	-8	-46	-35	-14	28	74
LTL Growth % (Titan Eye+)	14	28	3	-16	-44	-34	-15	27	47
Stores	556	561	578	584	569	557	571	599	605
Area (sq Ft)	3,67,000	3,71,000	3,81,000	3,86,000	3,78,000	3,71,000	3,76,000	3,88,000	3,89,000

Source: Company PL

Exhibit 7: Stage Set for strong recovery in FY22

(Rs m)	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Jewellery							
Sales	1,04,752	1,30,231	1,59,881	1,66,983	1,85,877	2,26,948	2,71,944
Growth %	20.4	24.3	22.8	4.4	11.3	22.1	19.8
EBIDTA	11,232	15,893	19,996	21,813	18,023	25,455	35,048
Growth %	36.8	41.5	25.8	9.1	(17.4)	41.2	37.7
EBIDTA Margin %	10.7	12.2	12.5	13.1	9.7	11.2	12.9
Watches							
Sales	20,138	20,547	24,409	25,261	15,826	25,955	29,199
Growth %	2.6	2.0	18.8	3.5	(37.4)	64.0	12.5
EBIDTA	2,376	3,083	3,572	3,789	32	2,595	5,256
Growth %	18.5	29.7	15.9	6.1	(99.2)	8,100.0	102.5
EBIDTA Margin %	11.8	15.0	14.6	15.0	0.2	10.0	18.0

Source: PL Research

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	2,00,302	2,06,020	2,61,058	3,11,842
YoY gr. (%)	4.9	2.9	26.7	19.5
Cost of Goods Sold	1,45,119	1,57,690	1,94,959	2,17,386
Gross Profit	55,183	48,330	66,099	94,456
Margin (%)	27.5	23.5	25.3	30.3
Employee Cost	10,401	9,110	12,528	14,965
Other Expenses	8,360	-	14,352	25,835
EBITDA	24,381	17,010	27,266	39,364
YoY gr. (%)	19.9	(30.2)	60.3	44.4
Margin (%)	12.2	8.3	10.4	12.6
Depreciation and Amortization	3,097	3,310	3,607	3,996
EBIT	21,285	13,700	23,658	35,368
Margin (%)	10.6	6.6	9.1	11.3
Net Interest	1,495	1,810	1,736	1,830
Other Income	1,258	1,810	1,973	2,457
Profit Before Tax	21,048	13,700	23,895	35,995
Margin (%)	10.5	6.6	9.2	11.5
Total Tax	5,873	3,560	6,014	9,060
Effective tax rate (%)	27.9	26.0	25.2	25.2
Profit after tax	15,175	10,140	17,881	26,935
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	15,175	10,140	17,881	26,935
YoY gr. (%)	5.1	(33.2)	76.3	50.6
Margin (%)	7.6	4.9	6.8	8.6
Extra Ord. Income / (Exp)	-	(1,370)	-	-
Reported PAT	15,175	8,770	17,881	26,935
YoY gr. (%)	10.4	(42.2)	103.9	50.6
Margin (%)	7.6	4.3	6.8	8.6
Other Comprehensive Income	(2,386)	2,060	-	-
Total Comprehensive Income	12,789	10,830	17,881	26,935
Equity Shares O/s (m)	888	888	888	888
EPS (Rs)	17.1	11.4	20.1	30.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	21,707	24,070	26,173	28,277
Tangibles	19,988	22,348	24,448	26,549
Intangibles	1,719	1,722	1,725	1,728
Acc: Dep / Amortization	9,876	13,018	16,313	19,922
Tangibles	8,802	11,848	15,066	18,600
Intangibles	1,074	1,171	1,246	1,321
Net fixed assets	11,831	11,052	9,860	8,355
Tangibles	11,186	10,500	9,381	7,948
Intangibles	645	551	479	407
Capital Work In Progress	138	250	276	305
Goodwill	-	-	-	-
Non-Current Investments	12,082	10,830	11,913	13,104
Net Deferred tax assets	1,721	1,050	261	312
Other Non-Current Assets	10,760	10,410	10,717	11,034
Current Assets				
Investments	3,292	27,530	31,660	36,408
Inventories	77,406	79,840	96,677	1,14,024
Trade receivables	2,144	2,908	3,218	3,844
Cash & Bank Balance	1,007	5,118	(7,937)	5,394
Other Current Assets	6,371	6,710	3,263	3,898
Total Assets	1,31,878	1,58,598	1,62,952	1,99,876
Equity				
Equity Share Capital	888	888	888	888
Other Equity	67,360	74,640	89,967	1,12,463
Total Network	68,247	75,528	90,854	1,13,350
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	1,525	1,430	1,827	2,182
Other non current liabilities	9,668	9,710	10,681	11,749
Current Liabilities				
ST Debt / Current of LT Debt	21,332	40,940	20,628	26,854
Trade payables	5,099	6,950	7,831	8,820
Other current liabilities	26,008	24,040	31,130	36,919
Total Equity & Liabilities	1,31,878	1,58,598	1,62,952	1,99,875

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	21,048	15,814	23,895	35,995
Add. Depreciation	3,097	3,350	3,607	3,996
Add. Interest	445	1,495	1,575	1,736
Less Financial Other Income	1,258	1,810	1,973	2,457
Add. Other	(639)	719	1,526	699
Op. profit before WC changes	23,950	21,378	30,604	42,426
Net Changes-WC	(12,644)	203	(26,813)	(14,005)
Direct tax	(5,872)	(3,985)	(6,014)	(9,060)
Net cash from Op. activities	5,434	17,596	(2,224)	19,361
Capital expenditures	(4,116)	(2,682)	(2,443)	(2,520)
Interest / Dividend Income	-	-	-	-
Others	(1,024)	1,501	(759)	(835)
Net Cash from Invst. activities	(5,140)	(1,181)	(3,202)	(3,355)
Issue of share cap. / premium	(3,394)	(1,441)	1,441	-
Debt changes	6,262	(6,262)	(3,500)	3,500
Dividend paid	(5,351)	(3,107)	(3,995)	(4,439)
Interest paid	(445)	(1,495)	(1,575)	(1,736)
Others	-	-	-	-
Net cash from Fin. activities	(2,927)	(12,305)	(7,629)	(2,675)
Net change in cash	(2,633)	4,110	(13,055)	13,331
Free Cash Flow	1,318	14,915	(4,667)	16,841

Source: Company Data, PL Research

Key Financial Metrics

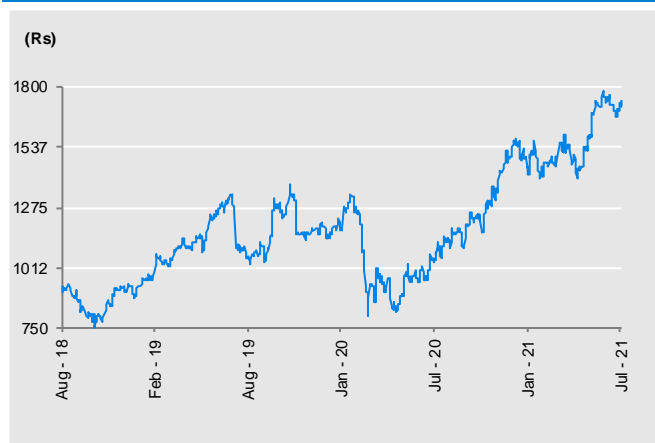
Y/e Mar	FY20	FY21	FY22E	FY23E
Per Share(Rs)				
EPS	17.1	11.4	20.1	30.3
CEPS	20.6	15.1	24.2	34.8
BVPS	76.9	85.1	102.3	127.7
FCF	1.5	16.8	(5.3)	19.0
DPS	5.0	3.5	4.5	5.0
Return Ratio(%)				
RoCE	24.4	13.3	20.8	28.1
ROIC	16.7	10.9	17.0	22.4
RoE	23.3	14.1	21.5	26.4
Balance Sheet				
Net Debt : Equity (x)	0.2	0.1	0.0	(0.1)
Net Working Capital (Days)	136	134	129	128
Valuation(x)				
PER	105.3	157.6	89.4	59.3
P/B	23.4	21.2	17.6	14.1
P/CEPS	87.4	118.8	74.4	51.7
EV/EBITDA	66.2	94.4	58.5	40.2
EV/Sales	8.1	7.8	6.1	5.1
Dividend Yield (%)	0.3	0.2	0.3	0.3

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	43,180	72,870	71,350	32,490
YoY gr. (%)	(2.6)	17.4	61.1	74.5
Raw Material Expenses	29,870	56,930	56,110	25,590
Gross Profit	13,310	15,940	15,240	6,900
Margin (%)	30.8	21.9	21.4	21.2
EBITDA	2,940	8,580	7,950	1,440
YoY gr. (%)	(42.7)	16.6	31.7	(158.5)
Margin (%)	6.8	11.8	11.1	4.4
Depreciation / Depletion	830	840	820	830
EBIT	2,110	7,740	7,130	610
Margin (%)	4.9	10.6	10.0	1.9
Net Interest	440	460	450	440
Other Income	710	370	340	650
Profit before Tax	2,380	7,650	7,020	820
Margin (%)	5.5	10.5	9.8	2.5
Total Tax	390	2,090	1,730	210
Effective tax rate (%)	16.4	27.3	24.6	25.6
Profit after Tax	1,990	5,560	5,290	610
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,990	5,560	5,290	610
YoY gr. (%)	(37.8)	18.3	48.3	(122.6)
Margin (%)	4.6	7.6	7.4	1.9
Extra Ord. Income / (Exp)	-	(1,370)	-	-
Reported PAT	1,990	4,190	5,290	610
YoY gr. (%)	(37.8)	(10.8)	48.3	(122.6)
Margin (%)	4.6	5.7	7.4	1.9
Other Comprehensive Income	3,130	60	370	260
Total Comprehensive Income	5,120	4,250	5,660	870
Avg. Shares O/s (m)	888	888	888	890
EPS (Rs)	2.2	6.3	6.0	0.7

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-21	Accumulate	1,869	1,763
2	05-Jul-21	Accumulate	1,663	1,755
3	29-Apr-21	Accumulate	1,663	1,507
4	07-Apr-21	Accumulate	1,663	1,518
5	07-Apr-21	Accumulate	1,663	1,518
6	10-Feb-21	Hold	1,601	1,563
7	07-Jan-21	UR	-	1,573
8	28-Oct-20	Accumulate	1,352	1,217
9	08-Oct-20	Accumulate	1,352	1,254
10	08-Oct-20	Accumulate	1,352	1,254

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,511	3,159
2	Avenue Supermarts	BUY	3,744	3,397
3	Bajaj Electricals	Hold	1,084	1,050
4	Britannia Industries	Accumulate	3,911	3,505
5	Burger King India	BUY	250	158
6	Colgate Palmolive	Accumulate	1,846	1,710
7	Crompton Greaves Consumer Electricals	BUY	518	468
8	Dabur India	Hold	588	614
9	Emami	Accumulate	624	573
10	Havells India	Accumulate	1,226	1,151
11	Hindustan Unilever	Accumulate	2,535	2,378
12	ITC	BUY	258	212
13	Jubilant FoodWorks	Accumulate	3,404	3,065
14	Kansai Nerolac Paints	Accumulate	661	628
15	Marico	Hold	525	547
16	Mold-tek Packaging	BUY	598	510
17	Nestle India	Accumulate	19,290	18,023
18	Pidilite Industries	UR	-	2,179
19	Titan Company	Accumulate	1,869	1,763
20	Voltas	Hold	955	1,015
21	Westlife Development	BUY	572	496

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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