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Company update

Consumer Staples &
Discretionary

Target price: Rs2,600

Shareholding pattern

	Jun '22	Sep '22	Dec '22
Promoters	52.9	52.9	52.9
Institutional investors	28.0	28.2	28.9
MFs and other	5.5	5.1	5.5
Banks, FI's, Ins	5.5	5.8	5.6
FII's	17.0	17.3	17.8
Others	19.1	18.9	18.2

Source: BSE

ESG disclosure score

Year	2021	2022	Chg
ESG score	45.0	44.5	(0.5)
Environment	26.2	26.2	0.0
Social	30.1	28.5	(1.6)
Governance	78.6	78.6	0.0

Note - Score ranges from 0 - 100 with a higher score
indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA

Titan Company

ADD
 Maintain

 Competition chipping away Tanishq's gold rate
 premium (~20% of Titan's fair value at risk)
Rs2,368

The rise in (relative) competitive intensity in jewellery retailing led to melting-away of gold-rate premium charged by category leaders (vs historically) compared to competition. We observe that in key cities (top 9 cities which contribute ~30-35% of Tanishq's total retail area), (1) premium charged by Tanishq has declined by ~50% (to 1-3%) from historical levels; (2) Tanishq is aggressively competing with retailers like Kalyan, Senco, GRT, Malabar; in 50% of its key markets (the top 9 cities), gold rate charged by Tanishq has been 0.2-0.8% lower than Senco; (3) key national competitors (Kalyan, Malabar) have moved to one-nation one-gold price; (4) gold price charged (under one-nation one-gold) is similar across companies, as per market rate set in Kerala (generally lowest compared to other markets; 1-1.5% premium vs bank rate); (5) amongst all key markets, gold-price premium (charged by Tanishq) in Kolkata is the highest (6% higher than Kalyan, Malabar).

While one-nation one-gold policy adopted by competitors may benefit them in customer acquisition, we believe the operating leverage benefit enjoyed by Tanishq (50% higher EBIT margin vs competition lead by ~2x revenue vs closest competition) could enable the company to combat the rise in competitive intensity more aggressively. Having said that, Tanishq's ability to drive operating margin expansion (which doubled over the last 15 years from 6% to 12%) may be constricted in the near term. We estimate ~20% of Titan's fair value in DCF is contributed by gold price premium, which is at risk now. **ADD retained.**

► **Competition impacts gold-rate premium charged by category leaders:** We believe, gold price premium charged by Tanishq in top 9 cities (~30-35% of total retail area for Tanishq as per our estimate) has reduced by ~50% (to 1-3%) due to the rise in competitive intensity from national and local jewellery retailers as -

- Hike in custom duty on gold has likely resulted in higher profit pool for players accessing gold through informal channels. We observe that large regional players have become aggressive on gold-rates (in a few cases, selling below the bank rate). This has created higher competitive pressure on national retailers like Titan, Kalyan and Senco. We expect implementation of hallmarking to help reduce this pressure going forward. However, in the near term, we expect gold-rate premium, as charged by Tanishq in different geographies, to be constricted;
- Many national retailers (including Kalyan, Joyalukkas, Malabar) moved to one-nation one-gold-price policy under which gold-rate charged by them has been the lowest (as per Kerala market) and uniform (inter-company/inter-cities). However, we understand to offset the impact of lower gross margin, retailers/brands have hiked making charges. Despite that, overall gross margin is likely to remain impacted (lower) by ~100bps as companies have chosen to pass on 1/3rd benefit to customers while retaining 2/3rd through higher making charges.

Market Cap	Rs2102bn/US\$25.7bn	Year to March	FY21	FY22	FY23E	FY24E
Reuters/Bloomberg	TITAN.BO/TTAN IN	Net Revenue (Rs mn)	216,440	287,990	380,706	436,886
Shares Outstanding (mn)	887.8	Net Profit (Rs mn)	9,740	23,340	35,390	40,175
52-week Range (Rs)	2770/1936	Dil. EPS (Rs)	11.0	26.3	39.9	45.3
Free Float (%)	47.1	% Chg YoY	(34.7)	139.6	51.6	13.5
FII (%)	17.8	P/E (x)	215.9	90.1	59.4	52.3
Daily Volume (US\$'000)	35,004	CEPS (Rs)	15.2	29.3	44.7	50.4
Absolute Return 3m (%)	(9.5)	EV/EBITDA (x)	121.7	61.3	40.9	36.8
Absolute Return 12m (%)	(2.3)	Dividend Yield (%)	0.2	0.3	0.4	0.5
Sensex Return 3m (%)	(3.7)	RoCE (%)	15.1	29.5	36.9	33.8
Sensex Return 12m (%)	10.8	RoE (%)	13.7	27.7	33.2	29.9

Please refer to important disclosures at the end of this report

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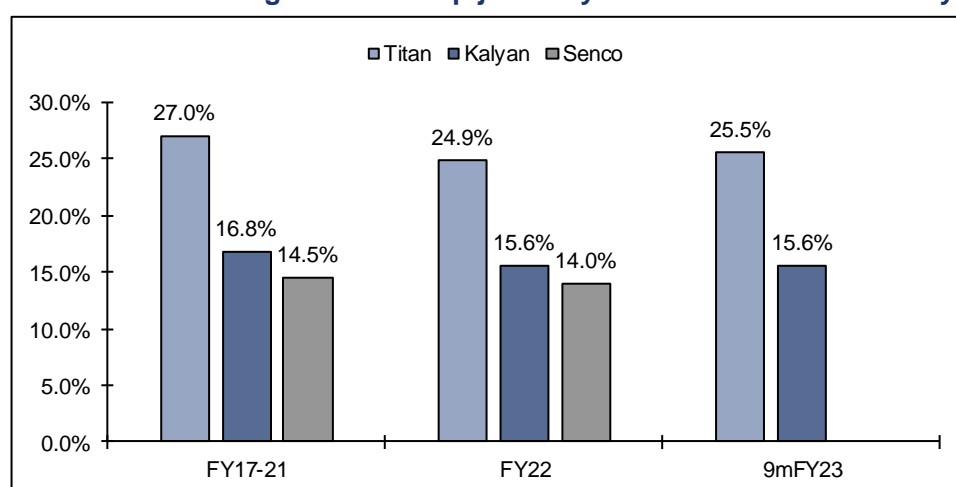
- **Pressure on gross margin to sustain; operating leverage advantage aids Tanishq's ability to compete:** We note gross margins of Titan and Kalyan during FY17-21 contracted by >115bps during FY22 and 9MFY23 [chart:1] due to the impact of rise in competitive intensity (especially on gold-rates). However, being a leader (>2x revenue compared to second player), Tanishq enjoys operating leverage benefits (~50% higher operating margin). Hence, we believe, while Tanishq has superior ability to combat competition, its ability for margin expansion may be constricted.
- **Valuation and risks:** We maintain our FY23-24E earnings estimates, modelling revenue / EBITDA / PAT CAGR of 23 / 29 / 31 (%) over FY22-24E. Maintain ADD with DCF-based target price of Rs2,600. Key downside risks: Irrational competitive environment and sustained weakness or worsening of macro environment leading to demand slowdown.

Table 1: Per gram gold price for 22 karat (Rs) across competition in top 9 cities (~30-35% retail presence / revenue share)

Cities	Tanishq	MCX	Kalyan	Senco	vs MCX vs Kalyan vs Senco			Joyalukkas Malabar Gold	
	Gold Rate (a)	Gold Rate (b)			(a) / (b)	(a) / (c)	(a) / (d)		
Mumbai	5300	5293	5180	5238	0%	2%	1.2%	5180	5180
Delhi	5300	5310	5180	5281	0%	2%	0.4%	5180	5180
Bangalore	5315	5315	5180	5340	0%	3%	-0.5%	5180	5180
Kolkata	5490	5,355	5180	5501	3%	6%	-0.2%	5180	5180
Hyderabad	5240	5,275	5180	5280	-1%	1%	-0.8%	5180	5180
Chennai	5205	5,275	5180	NA	-1%	0%	NA	5180	5180
Pune	5300	5,293	5180	5281	0%	2%	0.4%	5180	5180
Lucknow	5300	5,310	5180	5297	0%	2%	0.1%	5180	5180
Patna	5250	5,355	5180	5269	-2%	1%	-0.4%	5180	5180

Source: I-Sec research, Prices as on 24th February 2023

Chart 1: Gross margin trend of top jewellery retailers over the last six years



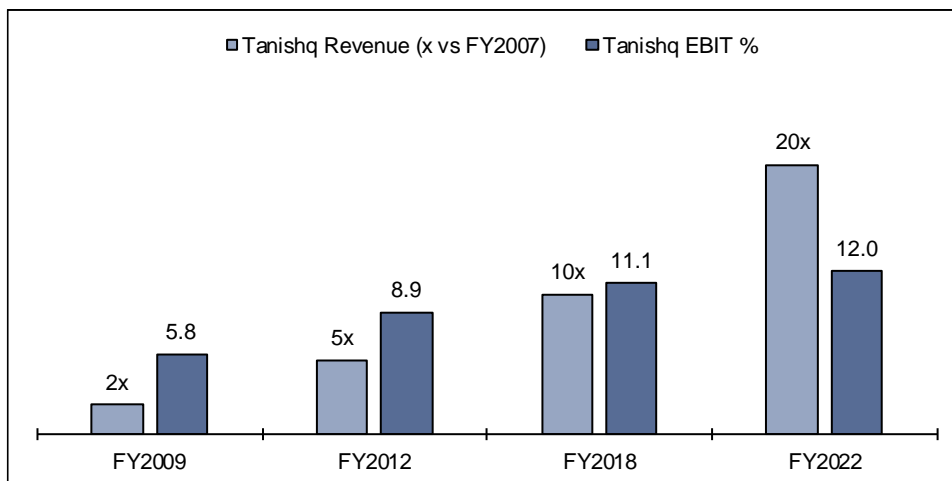
Source: Company, I-Sec research

Gross margin for Titan contracted 220bps in FY22 and 150bps in 9MFY23 compared to average gross margin during FY17-21. However, gross margin contraction for Kalyan has been lower at ~115-120bps during the same time period.

Chart 2: Tanishq's operating margin doubled over the last 15 years; revenue increased 20x

Operating leverage benefits enabled Tanishq to report 100-300bps improvement in EBIT margin with each doubling of revenue after FY07.

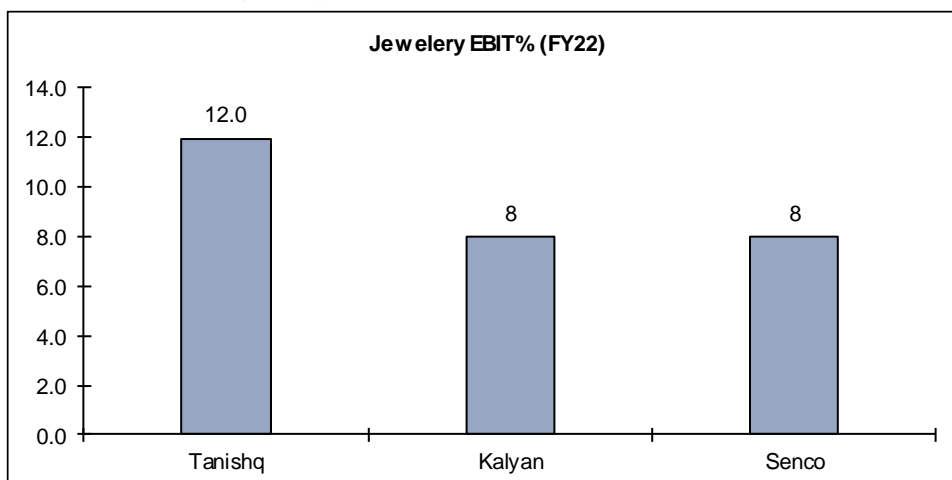
This may help Tanishq tackle the competition from gold-rate benchmarking more effectively.



Source: Company, I-Sec research

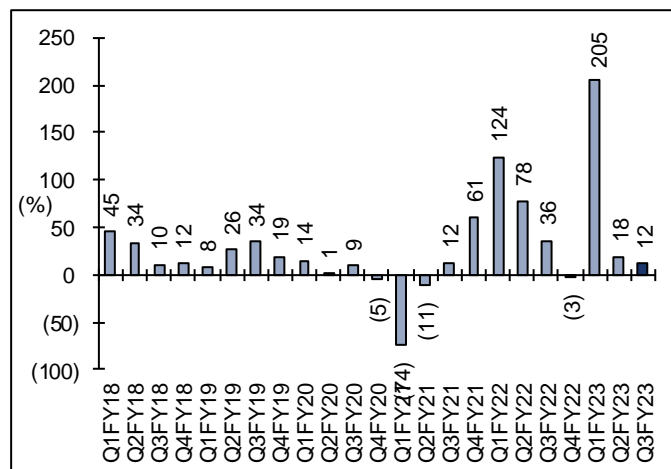
Chart 3: Operating margin in jewellery

Operating profit margin enjoyed by Tanishq is ~50% higher than competition.



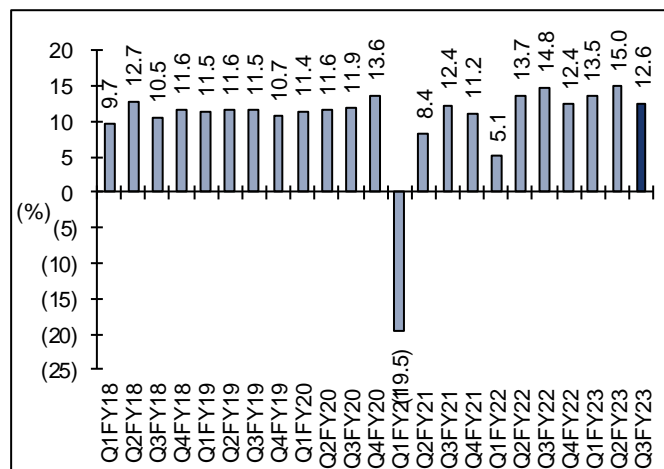
Source: Company, I-Sec research

Chart 4: Revenue growth



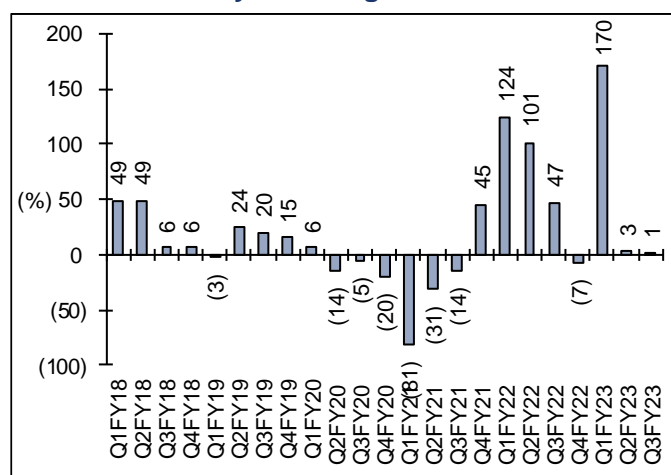
Source: Company data, I-Sec research

Chart 5: EBITDA margin



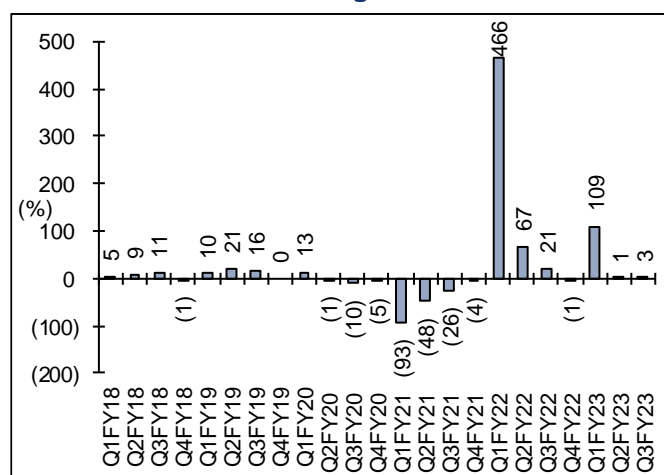
Source: Company data, I-Sec research

Chart 6: Jewellery volume growth



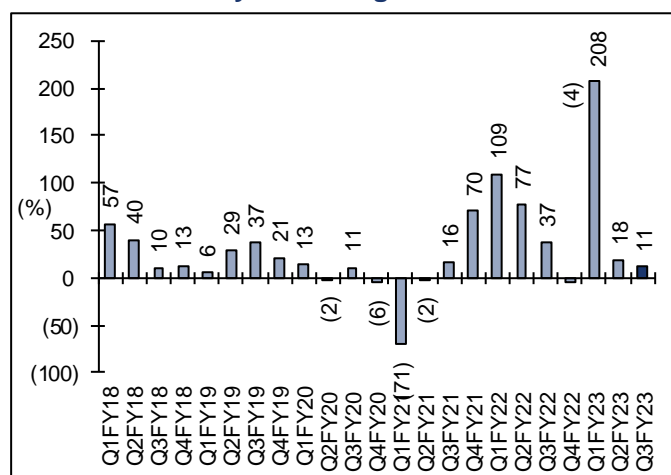
Source: Company data, I-Sec research

Chart 7: Watches volume growth



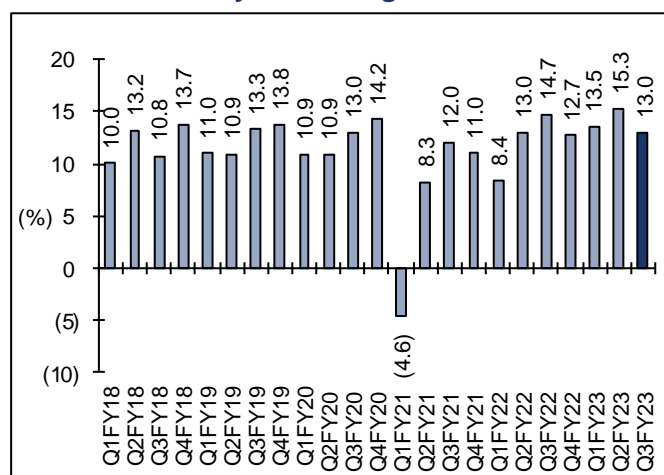
Source: Company data, I-Sec research

Chart 8: Jewellery revenue growth



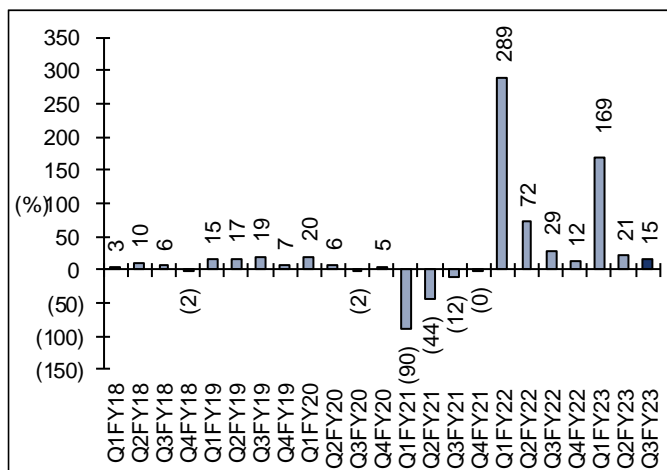
Source: Company data, I-Sec research

Chart 9: Jewellery EBIT margin



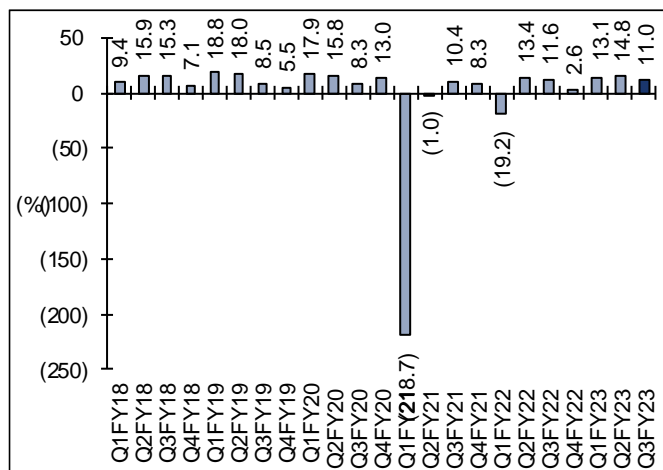
Source: Company data, I-Sec research

Chart 10: Watches revenue growth



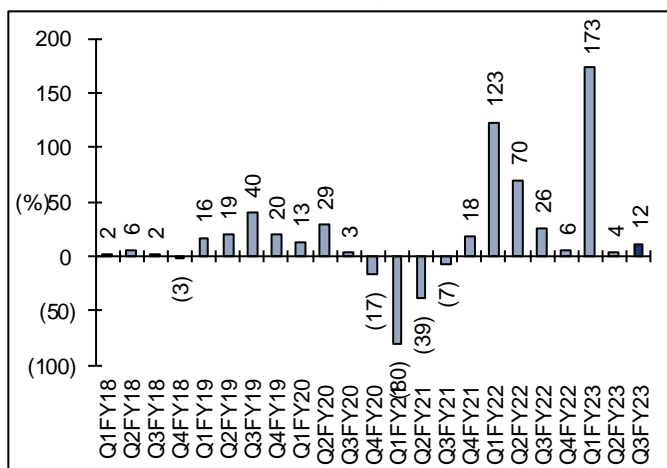
Source: Company data, I-Sec research

Chart 11: Watches EBIT margin



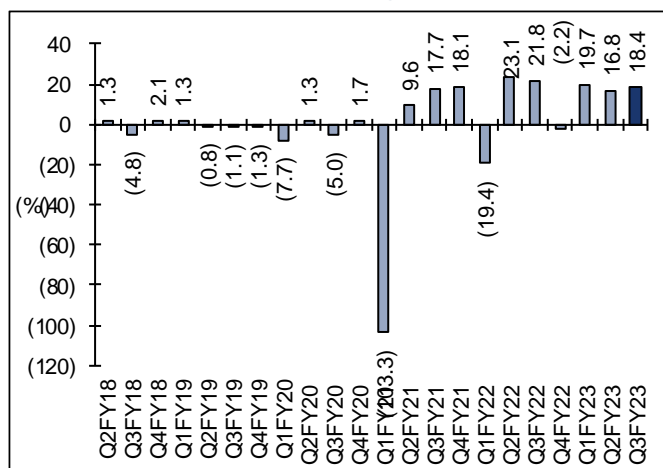
Source: Company data, I-Sec research

Chart 12: Eyewear revenue growth



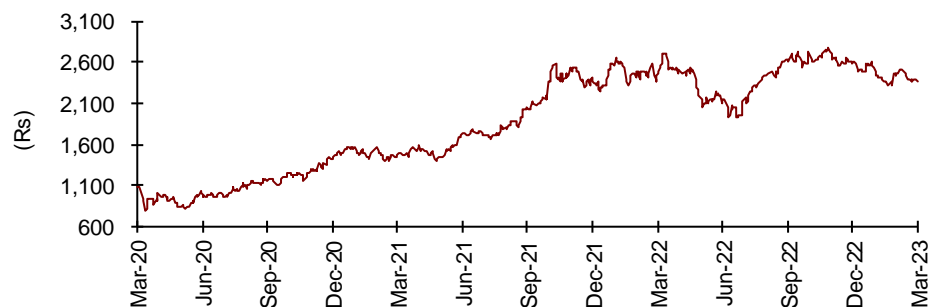
Source: Company data, I-Sec research

Chart 13: Eyewear EBIT margin



Source: Company data, I-Sec research

Price chart



Source: Bloomberg

Financial summary

Table 2: Profit and loss statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Net Sales	216,440	287,990	380,706	436,886
Operating Expenses	199,200	253,760	329,435	379,825
EBITDA	17,240	34,230	51,272	57,062
% margins	8.0	11.9	13.5	13.1
Depreciation & Amortisation	3,750	3,990	4,290	4,592
Gross Interest	2,030	2,180	2,551	2,685
Other Income	1,860	2,340	2,282	3,904
Recurring PBT	13,320	30,400	46,712	53,689
Less: Taxes	3,530	7,060	11,322	13,513
Less: Minority Interest	(50)	-	-	-
Net Income (Reported)	9,740	21,980	35,390	40,175
Extraordinaries (Net)	-	(1,360)	-	-
Recurring Net Income	9,740	23,340	35,390	40,175

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Assets				
Total Current Assets	104,330	174,940	210,032	260,789
of which cash & cash eqv.	5,600	15,730	33,444	58,142
Total Current Liabilities & Provisions	72,810	96,930	1,27,96	1,46,65
Net Current Assets	31,520	78,010	82,067	114,135
Investments	33,840	9,890	35,190	35,190
Net Fixed Assets	25,360	25,600	22,735	19,745
Capital Work-in-Progress	190	690	690	690
Total Assets	90,910	114,190	140,682	169,760
Liabilities				
Borrowings	15,810	20,800	20,780	20,780
Deferred Tax Liability	80	60	60	60
Minority Interest	-	-	-	-
Equity Share Capital	890	890	890	890
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	74,130	92,440	1,18,95	1,48,03
			2	0
Less: Misc. Exp. n.w.o.				
Net Worth	75,020	93,330	119,842	148,920
Total Liabilities	90,910	114,190	140,682	169,760

Source: Company data, I-Sec research

Table 4: Quarterly trends

(Rs mn, year ending March 31)

	Mar 22	Jun 22	Sep 22	Dec 22
Net Revenues	69,010	86,050	82,480	105,600
% growth (YoY)	(2.9)	204.6	18.2	11.6
EBITDA	8,540	11,640	12,340	13,300
Margin (%)	12.4	13.5	15.0	12.6
Other income	760	440	600	910
Extraordinaries (Net)	(1,230)	-	-	-
Adjusted Net profit	6,140	7,930	8,570	9,510

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
Operating Cashflow	15,180	24,960	39,950	43,548
Working Capital Changes	26,210	(32,200)	13,657	(7,370)
Capital Commitments	(1,460)	(2,240)	(1,425)	(1,603)
Free Cashflow	39,930	(9,480)	52,182	34,576
Cashflow from Investing Activities	(28,010)	11,640	(24,443)	2,301
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(8,790)	(480)	(2,571)	(2,685)
Dividend paid	(3,550)	(3,550)	(8,878)	(11,098)
Change in Deferred Tax Liability	1,040	370	17,714	24,698
Chg. in Cash & Bank balance	5,600	15,730	33,444	58,142

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY21	FY22	FY23E	FY24E
Per Share Data (Rs)				
EPS	11.0	26.3	39.9	45.3
Cash EPS	15.2	29.3	44.7	50.4
Dividend per share (DPS)	4.0	7.5	10.0	12.5
Book Value per share (BV)	84.5	105.1	135.0	167.7
Growth (%)				
Net Sales	2.8	33.1	32.2	14.8
EBITDA	(30.1)	98.5	49.8	11.3
PAT	(34.7)	139.6	51.6	13.5
DPS	0.0	87.5	33.3	25.0
Valuation Ratios (x)				
P/E	215.9	90.1	59.4	52.3
P/CEPS	155.9	81.0	53.0	47.0
P/BV	28.0	22.5	17.5	14.1
EV / EBITDA	121.7	61.3	40.9	36.8
EV / Sales	9.7	7.3	5.5	4.8
Operating Ratios				
Raw Material / Sales (%)	75.8	75.1	73.6	75.0
Employee cost / Sales (%)	4.9	4.4	3.9	4.1
Other exps / Sales (%)	11.3	8.6	9.0	7.9
Other Income / PBT (%)	14.0	7.7	4.9	7.3
Effective Tax Rate (%)	26.5	23.2	24.2	25.2
Working Capital (days)	48.7	82.8	49.5	49.3
Inventory Turnover (days)	141.8	172.5	140.0	140.0
Receivables (days)	6.2	7.2	7.2	7.2
Payables (days)	13.3	16.4	16.2	16.1
Net D/E (x)	(0.1)	(0.1)	(0.2)	(0.4)
Profitability Ratios (%)				
Net Income Margins	4.5	8.1	9.3	9.2
RoACE	15.1	29.5	36.9	33.8
RoAE	13.7	27.7	33.2	29.9
Dividend Payout	36.5	28.5	25.1	27.6
Dividend Yield	0.2	0.3	0.4	0.5
EBITDA Margins	8.0	11.9	13.5	13.1

Source: Company data, I-Sec research

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