

# Titan Company

## Strong 3Q led by with growth picking up further in January

- ✓ **View** – While the stock is quite expensive at 59x FY23E earnings, we believe the momentum can sustain in the near term with January seeing a further pick-up in jewelry growth rate to 28% led by increase in number of buyers in addition to higher ticket size, indicating continued market share gains. Expected margin improvement in watches and eyewear businesses in FY22 coupled with full recovery from 4Q onwards would also be taken positively. Another positive has been the reduced focus on non-core businesses like Mont Blanc and Favre Leuba.
- ✓ **Quarter summary** – 12% revenue and 16% jewellery revenue growth (ex-bullion sales) with watches and eyewear also moving closer to full recovery; focus remains on reducing wastages, optimizing inventory and generating cash flows, Rs 51cr ineffective hedging loss, Rs 137cr impairment hit taken on Favre Leuba, divesting stake in Mont Blanc, 77% recovery in other businesses, 33% recovery in Caratlane.
- ✓ **Eyewear** – 93% recovery in 3Q; better product mix and lower discounts led to margin improvement.
- ✓ **Watches** – 88% recovery in 3Q, 30% growth in e-commerce channel, positive m-o-m momentum across all channels, new range of smart watches launched under TRAQ brand.
- ✓ **Jewellery** – 16% growth driven by higher contribution from coins (8% vs 5% yoy) and recovery in walk-ins, metros, studded and sub 1-lakh category; margin impacted by lower studded mix and coin sales.
- ✓ **Pace of revenue recovery** – Internal target was to reach full recovery in 3Q and grow in 4Q, currently running ahead of targets.
- ✓ **Jewellery growth picks up in January** - 13% retail growth and 16% primary growth in 3Q; 28% growth in retail in January led by 13% increase in number of buyers, studded growth rate has climbed from 9% in 3Q to 16% in January.
- ✓ **Wedding segment** - Wedding segment has done well with 10% growth in 3Q which has picked up to 16% in January.
- ✓ **Cost cutting initiatives** – Will see 64-65% gross margins in FY22; almost 50% of total cost savings can sustain going forward; A&P spends are close to normal in 4Q.
- ✓ **Golden Harvest Scheme** – Good recovery in GHS enrolments, have now moved to positive trajectory; growth in number of buyers.
- ✓ **Online purchase trends** – Online plus joint transaction closures (omni) grew 3.5x yoy but still less than 3% of sales; strong jump in digital remote shopping (online plus remote is 7.5%-8% of sales).
- ✓ **Taneira outlook** – Now have 14 stores in 6 cities, brand launched stitched kurta sets and started listing on Myntra and Nykaa, 17% growth in ticket size.

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- ✓ **Broad demand drivers for Titan** – Believe have not seen much financial impact on target audience; overall spending on entertainment, travel etc has come down which has led to increased demand in current environment; supply side challenges for unorganized sector has driven share gains; consumers also shifting towards trusted brands.
- ✓ **Making charges** – Have held up well as percentage of sales; customers have absorbed the price increases in addition to increased gold prices; competitive intensity seen around gold rates.
- ✓ **Store addition** - Focus remains on store footprint addition, Good growth in both SSG and new stores, online growing faster.
- ✓ **Outlook on watches** – Recovery is better than expected, some migration towards wearables category and lower gifting have impacted; but still expect full recovery in 4Q; current wearables contribution at 5% and No.2 player in terms of volumes.
- ✓ **Outlook on eyewear** – Have taken longer than expected to progress on this business over the last few years; FY22 should see double-digit margins and return ratios.
- ✓ **Gold inventory** – Gold on loan is 56% of inventory value; number is sustainable at current levels given inventory optimization efforts.

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