

Retail Equity Research

Titan Company Limited

Consumer Discretionary

BSE CODE: 500114

NSE CODE: TITAN

Bloomberg CODE: TTAN:IN

SENSEX: 48,254

BUY

12Months Investment period Rating as per Large Cap
CMP Rs. 1,404 TARGET Rs. 1,660 RETURN 18% ↑
(Closing: 04-05-21)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

Demand growth continues in Q4

Titan Co. Ltd. manufactures and retails jewelry and watches. The Company also produces perfume for men and women.

- Titan's revenues surged 59.0% YoY, mainly driven by Jewellery division (+71.3% YoY).
- EBIT rose 41.5% YoY, despite margin contraction (-129bps to 10.4%). Margin contraction was primarily attributable to inferior business mix.
- As on 28th April 2021, the company had about 50% of its stores shut due to the ongoing regional lockdowns.
- Company's ongoing initiatives to contain cost, manage cash and improve market share should support healthy performance. Hence, we reiterate our BUY rating on the stock with a revised target price of Rs. 1,660 based on 58x FY23E EPS.

Jewellery segment continues to drive the topline

In 4QFY21, the company saw strong growth in the consolidated revenue to Rs. 7,494cr (+59.0% YoY), driven by excellent sales from Jewellery division which grew 71.3% YoY to Rs. 6,678cr. This is also the second consecutive quarter witnessing strong retail growth in the segment which reflects the re-gained market share in this space as the industry witnessed decline in gold prices during the quarter. Revenue from watches segment almost remained flat on YoY basis to Rs. 559cr, as the recovery rate for Jan and Feb months were at ~90% of the comparable months in 2020 and with better recovery in metros and mall stores compared to last quarter. Eyewear segment saw a growth of 17.9% YoY to Rs. 127cr, while other businesses revenue declined by 22.8% YoY to Rs. 140cr, as the revenue recovery remained 84% compared to Q4FY20.

Business mix weighs on margins

In absolute terms, EBIT grew 41.5% YoY to Rs. 781cr during the quarter, however the EBIT margin shrank 129bps to 10.4%. This can be attributed to business mix where jewellery segment contributed to ~89% of the revenue which registered muted margins on weak margins from B2B sales, loss from custom duty and lower studded mix. Watches EBIT was down 30% YoY to Rs. 38cr largely due to increased sales of lower margin products, particularly in wearables. However, this was slightly offset by EBIT recorded in the Eye wear segment which ended the quarter with Rs. 23cr as compared to Rs. 2cr in Q4FY20 on the back of better product mix, lower discounts and better cost control. Overall PAT rose 65.7% YoY to Rs. 564cr in Q4FY21.

Key concall highlights

- Customized campaigns with local brand ambassadors along with increased stores count in Tamil Nadu (TN) over the past few years led to a healthy customer growth in this market. The company also received a large order from the TN government for gold coins in Q4FY21.
- Contribution from Golden Harvest is at 21% in-line with last year. However, from Feb month onwards, the contribution came down to 15%.

Valuation

We believe that the company's ongoing initiatives to contain cost, manage cash and improve market share (policies rolled out in a more systematic manner this time as compared to last year) should lead to better margins and support healthy performance. Hence, we reiterate our BUY rating on the stock with a revised price target of Rs. 1,660 based on 58x FY23E EPS.

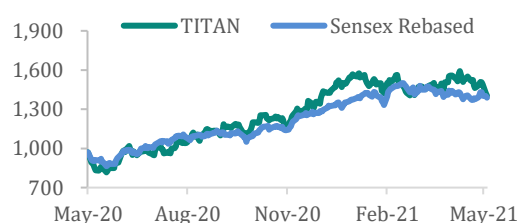
Company Data

| | |
|--------------------------|--------------|
| Market Cap (cr) | Rs. 1,25,888 |
| Enterprise Value (cr) | Rs. 1,28,944 |
| Outstanding Shares (cr) | 88.7 |
| Free Float | 47.0% |
| Dividend Yield | 0.3% |
| 52 week high | Rs. 1,621 |
| 52 week low | Rs. 810 |
| 6m average volume (lacs) | 1.2 |
| Beta | 0.8 |
| Face value | Rs. 1 |

| Shareholding % | Q2FY21 | Q3FY21 | Q4FY21 |
|-------------------|--------|--------|--------|
| Promoters | 26.8 | 26.7 | 26.7 |
| FII's | 30.2 | 29.3 | 29.6 |
| MFs/Insti | 14.6 | 14.9 | 14.2 |
| Public | 21.3 | 21.4 | 21.6 |
| Others | 7.2 | 7.6 | 8.0 |
| Total | 100.0 | 100.0 | 100.0 |
| Promoters' pledge | 0.0 | 0.0 | 0.0 |

| Price Performance | 3 Month | 6 Month | 1 Year |
|-------------------|---------|---------|--------|
| Absolute Return | -7.3% | 15.5% | 57.5% |
| Absolute Sensex | -4.7% | 18.8% | 52.1% |
| Relative Return* | -2.6% | -3.3% | 5.4% |

*over or under performance to benchmark index



| Consolidated (cr) | FY21A | FY22E | FY23E |
|-------------------|--------|--------|--------|
| Sales | 21,644 | 25,895 | 30,502 |
| Growth (%) | 2.8 | 19.6 | 17.8 |
| EBITDA | 1,911 | 3,240 | 3,878 |
| EBITDA Margin (%) | 8.8 | 12.5 | 12.7 |
| Adj. PAT | 973 | 2,041 | 2,539 |
| Growth (%) | (35.2) | 109.7 | 24.4 |
| Adj. EPS | 11.0 | 23.0 | 28.6 |
| Growth (%) | (35.6) | 109.7 | 24.4 |
| P/E | 142.1 | 61.1 | 49.1 |
| P/B | 18.4 | 13.6 | 11.4 |
| EV/EBITDA | 74.9 | 39.8 | 33.2 |
| ROE (%) | 13.0 | 22.2 | 23.1 |
| D/E | 0.7 | 0.6 | 0.5 |

Quarterly Financials (Consolidated)

Profit & Loss Account

| | Q4FY21 | Q4FY20 | YoY Growth % | Q3FY21 | QoQ Growth % | FY21 | FY20 | YoY Growth % |
|------------------------------|------------|------------|--------------|------------|--------------|--------------|--------------|---------------|
| Revenue | 7,494 | 4,712 | 59.0 | 7,619 | (1.6) | 21,664 | 21,052 | 2.8 |
| EBITDA | 873 | 654 | 33.4 | 888 | (1.7) | 1,911 | 2,620 | (27.1) |
| EBITDA margins | 11.6 | 13.9 | (230bps) | 11.7 | (10bps) | 8.8 | 12.4 | (360bps) |
| Depreciation | 92 | 102 | (10.1) | 96 | (4.2) | 376 | 348 | 8.1 |
| EBIT | 781 | 552 | 41.5 | 792 | (1.4) | 1,535 | 2,272 | (32.4) |
| Interest | 51 | 43 | 19.7 | 51 | - | 203 | 166 | 22.2 |
| Other Income | - | 0 | n.m. | - | - | (5) | (4) | (24.1) |
| Exceptional Items | - | - | - | - | - | - | - | - |
| PBT | 730 | 510 | 43.2 | 741 | (1.5) | 1,327 | 2,102 | (36.9) |
| Tax | 162 | 167 | (2.9) | 211 | (23.2) | 353 | 609 | (42.0) |
| Sh. of profit from Associate | - | (0) | n.m. | - | - | (5) | (4) | (24.1) |
| Minority Interest | 4 | (3) | 239.9 | 5 | (20.0) | 1 | (9) | n.m. |
| Reported PAT | 564 | 346 | 63.2 | 525 | 7.4 | 973 | 1,501 | (35.2) |
| Adjustments | - | - | - | - | - | - | - | - |
| Adj. PAT | 564 | 346 | 63.2 | 525 | 7.4 | 973 | 1,501 | (35.2) |
| No. of shares | 88.7 | 88.3 | 0.5 | 88.7 | 0.0 | 88.8 | 88.3 | 0.6 |
| Adj. EPS (Rs.) | 6.4 | 3.9 | 62.5 | 5.9 | 7.4 | 11.0 | 17.0 | (35.6) |

Segment-wise performance

| Rs. cr | Q4FY21 | | | Q4FY20 | | | YoY Growth % | | |
|-------------------------|--------------|------------|-------------|--------------|------------|-------------|--------------|-------------|-----------------|
| | Revenue | EBIT | % Margin | Revenue | EBIT | % Margin | Revenue | EBIT | % Margin |
| Watches | 559 | 38 | 6.8 | 558 | 54 | 9.7 | 0.1 | (30.0) | (292bps) |
| Jewellery | 6,678 | 717 | 10.7 | 3,899 | 530 | 13.6 | 71.3 | 35.3 | (286bps) |
| Eyewear | 127 | 23 | 18.1 | 108 | 2 | 1.7 | 17.9 | 1,170.7 | 1,643bps |
| Others | 140 | (1) | (0.7) | 181 | 0 | 0.0 | (22.8) | n.m. | n.m. |
| Corporate (unallocated) | (10) | 4 | n.m. | (34) | (34) | n.m. | 70.9 | 111.7 | n.m. |
| Total | 7,494 | 781 | 10.4 | 4,712 | 552 | 11.7 | 59.0 | 41.5 | (129bps) |

Change in Estimates

| Year / Rs. cr | Old estimates | | New estimates | | Change % | |
|---------------|---------------|--------|---------------|--------|----------|-------|
| | FY22E | FY23E | FY22E | FY23E | FY22E | FY23E |
| Revenue | 26,864 | 31,158 | 25,895 | 30,502 | (3.6) | (2.1) |
| EBITDA | 3,329 | 3,936 | 3,240 | 3,878 | (2.7) | (1.5) |
| Margins (%) | 12.4 | 12.6 | 12.5 | 12.7 | 10bps | 10bps |
| Adj. PAT | 2,125 | 2,604 | 2,041 | 2,539 | (3.9) | (2.5) |
| Adj. EPS | 23.9 | 29.3 | 23.0 | 28.6 | (3.9) | (2.5) |

PROFIT & LOSS

| Y.E March (Rs. cr) | FY19A | FY20A | FY21A | FY22E | FY23E |
|----------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 19,779 | 21,052 | 21,644 | 25,895 | 30,502 |
| % change | 22.4 | 6.4 | 2.8 | 19.6 | 17.8 |
| EBITDA | 2,174 | 2,620 | 1,911 | 3,240 | 3,878 |
| % change | 25.4 | 20.5 | (27.1) | 69.5 | 19.7 |
| Depreciation | 163 | 348 | 376 | 433 | 425 |
| EBIT | 2,012 | 2,272 | 1,535 | 2,806 | 3,452 |
| Interest | 53 | 166 | 203 | 205 | 216 |
| Other Income | (2) | (4) | (5) | (0) | - |
| PBT | 1,957 | 2,102 | 1,327 | 2,602 | 3,237 |
| % change | 27.7 | 7.4 | (36.9) | 96.1 | 24.4 |
| Tax | 568 | 609 | 353 | 559 | 695 |
| Tax Rate (%) | 29.0 | 29.0 | 26.6 | 21.5 | 21.5 |
| Reported PAT | 1,404 | 1,501 | 973 | 2,041 | 2,539 |
| Adj* | - | - | - | - | - |
| Adj PAT | 1,404 | 1,501 | 973 | 2,041 | 2,539 |
| % change | 22.4 | 6.9 | (35.2) | 109.7 | 24.4 |
| No. of shares (cr) | 88.8 | 88.3 | 88.8 | 88.8 | 88.8 |
| Adj EPS (Rs.) | 15.8 | 17.0 | 11.0 | 23.0 | 28.6 |
| % change | 22.4 | 7.5 | (35.6) | 109.7 | 24.4 |
| DPS (Rs.) | 5.0 | 4.0 | 4.0 | 8.4 | 10.5 |
| CEPS (Rs.) | 17.7 | 21.0 | 15.2 | 27.9 | 33.4 |

CASH FLOW

| Y.E March (Rs. cr) | FY19A | FY20A | FY21A | FY22E | FY23E |
|-------------------------|--------------|--------------|----------------|--------------|--------------|
| Net inc. + Depn. | 1,567 | 1,849 | 1,349 | 2,474 | 2,965 |
| Non-cash adj. | 903 | (939) | 2,970 | 302 | 354 |
| Changes in W.C | (1,227) | (1,258) | (180) | (1,466) | (1,698) |
| C.F. Operation | 1,243 | (347) | 4,139 | 1,311 | 1,620 |
| Capital exp. | (245) | (346) | (96) | (388) | (488) |
| Change in inv. | - | (39) | - | - | - |
| Other invest.CF | (553) | 619 | (2,705) | - | - |
| C.F - Investment | (798) | 235 | (2,801) | (388) | (488) |
| Issue of equity | - | - | - | - | - |
| Issue/repay debt | (39) | 693 | (562) | - | - |
| Dividends paid | (397) | (536) | (355) | (355) | (746) |
| Other finance.CF | (53) | (400) | (317) | - | - |
| C.F - Finance | (489) | (242) | (1,234) | (355) | (746) |
| Chg. in cash | (44) | (354) | 104 | 567 | 386 |
| Closing cash | 1,066 | 381 | 560 | 1,127 | 1,512 |

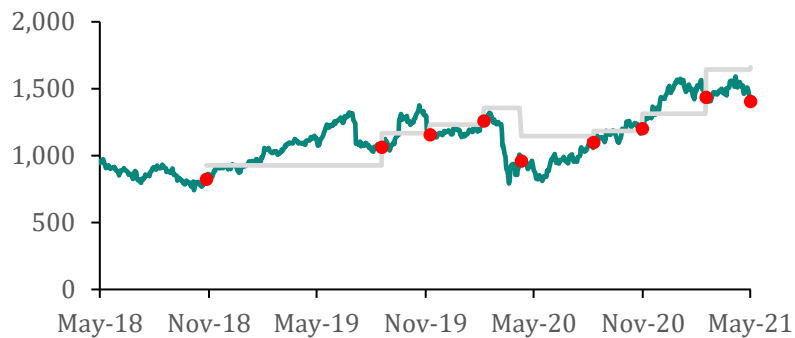
BALANCE SHEET

| Y.E March (Rs. cr) | FY19A | FY20A | FY21A | FY22E | FY23E |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash | 1,066 | 381 | 560 | 1,127 | 1,512 |
| Accounts Receivable | 420 | 312 | 366 | 544 | 641 |
| Inventories | 7,039 | 8,103 | 8,408 | 9,856 | 11,690 |
| Other Cur. Assets | 1,062 | 1,325 | 3,863 | 3,923 | 3,988 |
| Investments | 63 | 68 | 43 | 43 | 43 |
| Gross Fixed Assets | 1,516 | 1,861 | 1,957 | 2,346 | 2,834 |
| Net Fixed Assets | 1,182 | 2,220 | 2,142 | 2,098 | 2,162 |
| CWIP | 29 | 11 | 10 | 9 | 8 |
| Intangible Assets | 363 | 396 | 379 | 379 | 379 |
| Def. Tax (Net) | 74 | 159 | 105 | 161 | 193 |
| Other Assets | 416 | 575 | 576 | 576 | 576 |
| Total Assets | 11,715 | 13,550 | 16,452 | 18,716 | 21,192 |
| Current Liabilities | 3,109 | 3,337 | 3,348 | 3,919 | 4,597 |
| Provisions | 131 | 166 | 156 | 156 | 156 |
| Debt Funds | 2,386 | 3,368 | 5,438 | 5,438 | 5,438 |
| Other Liabilities | 5 | 6 | 8 | 13 | 16 |
| Equity Capital | 89 | 89 | 89 | 89 | 89 |
| Reserves & Surplus | 5,981 | 6,580 | 7,408 | 9,093 | 10,886 |
| Shareholder's Fund | 6,070 | 6,669 | 7,497 | 9,182 | 10,975 |
| Minority Interest | 14 | 4 | 5 | 7 | 10 |
| Total Liabilities | 11,715 | 13,550 | 16,452 | 18,716 | 21,192 |
| BVPS (Rs.) | 68 | 76 | 84 | 103 | 124 |

RATIOS

| Y.E March | FY19A | FY20A | FY21A | FY22E | FY23E |
|--------------------------------|-------|-------|-------|-------|-------|
| Profitab. & Return | | | | | |
| EBITDA margin (%) | 11.0 | 12.4 | 8.8 | 12.5 | 12.7 |
| EBIT margin (%) | 10.2 | 10.8 | 7.1 | 10.8 | 11.3 |
| Net profit mgn.(%) | 7.1 | 7.1 | 4.5 | 7.9 | 8.3 |
| ROE (%) | 23.1 | 22.5 | 13.0 | 22.2 | 23.1 |
| ROCE (%) | 23.7 | 22.6 | 11.9 | 19.2 | 21.0 |
| W.C & Liquidity | | | | | |
| Receivables (days) | 7.8 | 5.4 | 6.2 | 7.7 | 7.7 |
| Inventory (days) | 178.5 | 195.2 | 187.0 | 191.6 | 191.6 |
| Payables (days) | 23.0 | 14.4 | 17.5 | 18.5 | 19.4 |
| Current ratio (x) | 1.8 | 1.8 | 1.7 | 1.9 | 2.0 |
| Quick ratio (x) | 0.3 | 0.1 | 0.5 | 0.5 | 0.6 |
| Turnover & Leverage | | | | | |
| Gross asset T.O (x) | 14.0 | 12.5 | 11.3 | 12.0 | 11.8 |
| Total asset T.O (x) | 1.9 | 1.7 | 1.4 | 1.5 | 1.5 |
| Int. coverage ratio (x) | 38.3 | 13.7 | 7.6 | 13.7 | 16.0 |
| Adj. debt/equity (x) | 0.4 | 0.5 | 0.7 | 0.6 | 0.5 |
| Valuation | | | | | |
| EV/Sales (x) | 5.1 | 4.0 | 6.6 | 5.0 | 4.2 |
| EV/EBITDA (x) | 46.5 | 32.4 | 74.9 | 39.8 | 33.2 |
| P/E (x) | 71.1 | 54.5 | 142.1 | 61.1 | 49.1 |
| P/BV (x) | 16.4 | 12.3 | 18.4 | 13.6 | 11.4 |

Recommendation Summary



| Dates | Rating | Target |
|-----------|------------|--------|
| 22-Aug-19 | ACCUMULATE | 1,167 |
| 11-Nov-19 | HOLD | 1,232 |
| 10-Feb-20 | HOLD | 1,356 |
| 13-Apr-20 | BUY | 1,146 |
| 13-Aug-20 | BUY | 1,183 |
| 03-Nov-20 | BUY | 1,314 |
| 18-Feb-21 | BUY | 1,643 |
| 05-May-21 | BUY | 1,660 |

Investment Rating Criteria

| Ratings | Large caps | Midcaps | Small Caps |
|-------------|----------------------------|---------------------------|---------------------------|
| Buy | Upside is above 10% | Upside is above 15% | Upside is above 20% |
| Accumulate | - | Upside is between 10%-15% | Upside is between 10%-20% |
| Hold | Upside is between 0% - 10% | Upside is between 0%-10% | Upside is between 0%-10% |
| Reduce/sell | Downside is more than 0% | Downside is more than 0% | Downside is more than 0% |
| Not rated | | | |

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside. The stock may still be a quality stock.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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