

October 7, 2021

Jewellery glitters with strong consensus beat in Q2

About the stock: Titan has transformed itself from a watch maker into an enviable lifestyle company, with jewellery being the leading vertical (82% of revenues). Robust distribution network comprises 1900+ stores spread across 2.5 mn sq ft.

- Titan has consistently displayed its ability to gain market share amid a tough industry scenario owing to its robust balance sheet (30%+ RoCE and cash & investments worth ₹ 2000+ crore) and strong brand patronage

Key highlights of Q2FY22 update: Titan witnessed a strong recovery in demand across segments. Overall store operational days exceeded 90% in Q2FY22.

- Titan's overall Q2FY22 revenue print was significantly ahead of consensus estimates. Standalone revenue growth (excluding gold bullion sale) was at 78% YoY (vs. consensus estimate of ~40%)
- Tanishq continues to gain market share amid robust topline growth of 78% YoY with an impressive two-year CAGR of 32% in Q2FY22. It surpassed pre-Covid levels in H1FY22 with growth of 16% vs. FY20 levels
- Watches segment witnessed a swift recovery with revenue growth of 73% YoY in Q2FY22 (~96% of pre-Covid levels)

What should investors do? Titan has been an exceptional performer in the discretionary space with stock price appreciating at ~40% CAGR in last five years

- We continue to remain structurally positive and maintain **BUY** rating

Target Price and Valuation: We value Titan at ₹ 2550 i.e. 65x FY24E EPS

Key triggers for future price performance:

- Robust balance sheet and asset light distribution model has enabled it to outpace peers in terms of store addition (to add ~35 Tanishq stores in FY22)
- Tanishq's penetration is still at a very nascent stage in the Indian jewellery market. This provides immense opportunity for Titan to enhance its market share. Mandatory gold hallmarking is expected to further enhance market share gains from the unorganised space
- Thrust on wedding space is bearing fruit with wedding jewellery becoming a critical growth driver while its share in overall jewellery revenue has increased meaningfully
- Gradual recovery in studded ratio would aid margins, going forward
- We bake in revenue, earnings CAGR of 22%, 53%, respectively, in FY21-24E

Alternate Stock Idea: Apart from Titan in our retail coverage, we also like V-Mart

- V-Mart, having over the years built its fortress in non-tier I cities, is well poised to capture market share in the growing ~₹ 2.5 trillion value fashion industry
- BUY with a target price of ₹ 4100/share



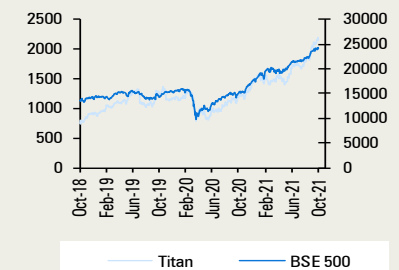
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	1,90,696.4
Debt (FY21) (₹ Crore)	165.0
Cash & investments (FY21) (₹ Crore)	3,407.3
EV (₹ Crore)	1,87,454.1
52 week H/L	2206 / 1154
Equity Capital (₹ Crore)	88.8
Face Value (₹)	1

Shareholding pattern

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	52.9	52.9	52.9	52.9	52.9
FII	17.6	18.1	18.6	18.1	18.4
DII	10.8	10.9	11.0	11.1	9.9
Others	18.7	18.2	17.5	17.9	18.8

Price Chart



Key risks

- (i) Re-imposition of lockdown restrictions can lower sales
- (ii) Delay in expansion of store network

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Key Financial Summary

Financials	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Net Sales	21,051.5	21,644.0	14.0	28,029.0	33,624.7	39,617.7	22.3
EBITDA	2,466.6	1,724.0	13.0	3,303.1	4,265.9	5,060.3	43.2
PAT	1,501.4	973.0		2,179.3	2,886.2	3,471.9	52.8
EPS (₹)	16.9	11.0		24.5	32.5	39.1	
P/E (x)	127.0	196.0		87.5	66.1	54.9	
EV/Sales (x)	9.1	8.7		6.7	5.5	4.8	
EV/EBITDA (x)	77.4	108.7		56.7	43.7	37.2	
RoCE (%)	28.7	17.6		31.1	32.9	32.2	
RoE (%)	22.5	13.0		23.4	24.8	24.4	

Key takeaways of Q2FY22 quarterly update

- Jewellery division:** Titan's jewellery division (Tanishq) delivered yet another robust quarter with revenue trajectory coming in significantly ahead of consensus estimates. This signifies the inherent strength of the business model and its ability to gain market share in a challenging scenario. **Revenue growth (excluding gold bullion sale) came in at 78% YoY in Q2FY22, way ahead of consensus estimate of ~40% growth.** The higher growth can be partially attributed to favourable base (-2% topline de-growth) but two-year CAGR still remains impressive at 32%. As per our channel checks, regional jewellery players had reached ~85-90% of pre-Covid rates. This indicates consistent market share gains for Tanishq as was also witnessed in Q2FY21 (Tanishq's recovery rate: 98% vs. 55-70% recovery rate for regional players). The healthy recovery was driven by postponement of avenues like gift purchases, occasion buying and wedding-wear jewellery from Q1 to Q2FY22. Both plain and studded segment grew in double digits but growth was much stronger in the plain gold segment, which led to studded mix being still below pre-pandemic levels. During the quarter, the company added 13 new stores in the segment taking total store count to 414
- Watches & other divisions:** Watches division reported 73% YoY growth (~96% of Q2FY20 base). The division witnessed rapid recovery in walk-ins with the re-opening of stores, which was seen in only jewellery division last year. E-commerce witnessed healthy momentum while walk-ins in offline network improved gradually with malls and LFS at 65% and 70% of pre-pandemic levels, respectively. The eyewear division also witnessed healthy recovery with revenue growth of 74% YoY

Robust performance in challenging times reaffirms our thesis of long term market share gains for Titan. Softening of gold prices (down 8% QoQ) coupled with strong festive and wedding season are expected to accelerate the growth trajectory from Q3FY22 onwards. With better than anticipated revenue growth in Q2FY22, we revise our revenue and earnings estimates. We now build in revenue and earnings CAGR of 22% and 53%, respectively, in FY21-24E. Titan has, over the years, withstood challenges and emerged as a resilient player. We believe Titan is a structural growth story and appears to be a key beneficiary of the unorganised to organised shift in the Indian jewellery market. We reiterate our BUY recommendation with a revised target price of ₹ 2550 (65x FY24E EPS, previous target price: ₹ 2110).

Exhibit 1: Change in estimates

₹ Crore)	FY22E			FY23E			FY24E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	25,804.4	28,029.0	8.6	31,865.0	33,624.7	5.5	37,814.5	39,617.7	4.8
EBITDA	2,985.2	3,303.1	10.6	4,039.2	4,265.9	5.6	4,825.9	5,060.3	4.9
EBITDA Margin (%)	11.6	11.8	22 bps	12.7	12.7	1 bps	12.8	12.8	1 bps
PAT	1,941.6	2,179.3	12.2	2,716.6	2,886.2	6.2	3,297.0	3,471.9	5.3
EPS (₹)	21.9	24.5	12.1	30.6	32.5	6.2	37.2	39.1	5.2

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21A	FY22E	FY23E	FY24E
Total operating Income	21,644.0	28,029.0	33,624.7	39,617.7
Growth (%)	2.8	29.5	20.0	17.8
Raw Material Expenses	16,414.0	20,797.5	24,546.1	28,920.9
Employee Expenses	1,065.0	1,317.4	1,546.7	1,782.8
Mfg, Admin & selling Exps	2,441.0	2,611.0	3,266.1	3,853.7
Total Operating Expenditure	19,920.0	24,725.9	29,358.9	34,557.4
EBITDA	1,724.0	3,303.1	4,265.9	5,060.3
Growth (%)	-30.1	91.6	29.1	18.6
Depreciation	375.0	389.2	423.8	463.0
Interest	203.0	195.6	208.2	220.7
Other Income	186.0	195.3	224.6	265.0
PBT	1,332.0	2,913.6	3,858.5	4,641.6
Exceptional items*	0.0	0.0	0.0	0.0
Total Tax	353.0	734.2	972.3	1,169.7
Share of JV/Minority int	-6.0	0.0	0.0	0.0
PAT	973.0	2,179.3	2,886.2	3,471.9
Growth (%)	-35.2	124.0	32.4	20.3
EPS (₹)	11.0	24.5	32.5	39.1

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement				
	₹ crore			
(Year-end March)	FY21A	FY22E	FY23E	FY24E
PAT	973.0	2,179.3	2,886.2	3,471.9
Add: Depreciation	375.0	389.2	423.8	463.0
Add: Finance Cost	203.0	195.6	208.2	220.7
(Inc)/dec in Current Assets	-230.6	-2,502.7	-2,553.4	-2,734.6
Inc/(dec) in CL and Provisions	2,616.4	1,139.5	1,167.4	1,119.3
Others	215.1	0.0	0.0	0.0
CF from operating activities	4,151.8	1,401.0	2,132.1	2,540.4
(Inc)/dec in Investments	-2,666.1	142.4	-54.1	-82.8
(Inc)/dec in Fixed Assets	-111.9	-315.0	-320.0	-310.0
(Inc)/dec in CWIP	-13.8	9.6	6.7	4.7
Others	40.6	-50.0	-50.0	0.0
CF from investing activities	-2,751.1	-213.0	-417.4	-388.1
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-557.9	-127.9	-3.7	-3.3
Less: Finance Cost	-203.0	-195.6	-208.2	-220.7
Dividend Paid	-355.1	-355.1	-577.2	-868.0
Others	-106.6	-174.2	-183.3	-183.2
CF from financing activities	-1,222.6	-852.8	-972.5	-1,275.3
Net Cash flow	178.1	335.2	742.3	877.0
Opening Cash	381.2	559.3	894.4	1,636.7
Closing Cash	559.3	894.4	1,636.7	2,513.7

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet				
	₹ crore			
(Year-end March)	FY21A	FY22E	FY23E	FY24E
Liabilities				
Equity Capital	88.8	88.8	88.8	88.8
Reserve and Surplus	7,407.5	9,231.7	11,540.7	14,144.6
Total Shareholders funds	7,496.3	9,320.5	11,629.5	14,233.4
Total Debt	165.0	37.1	33.4	30.0
Deferred Tax Liability	(97.0)	(97.0)	(97.0)	(87.7)
Other long term liabilities	1,261.0	1,261.1	1,261.1	1,261.2
Total Liabilities	8,825.3	10,521.7	12,826.9	15,436.9
Assets				
Gross Block	2,128.0	2,443.0	2,763.0	3,073.0
Less: Accu Depreciation	669.0	884.0	1,124.4	1,394.8
Net Block	1,459.0	1,559.0	1,638.6	1,678.2
Capital WIP	32.0	22.4	15.7	11.0
Goodwill on Consolidation	123.0	123.0	123.0	123.0
Total Fixed Assets	1,614.0	1,704.4	1,777.3	1,812.2
Investments	2,848.0	2,705.6	2,759.7	2,842.5
Inventory	8,408.0	10,366.9	12,436.5	14,653.1
Debtors	366.0	460.8	552.7	651.2
Loans and Advances	1,513.0	1,962.0	2,353.7	2,773.2
Other Current Assets	-	-	-	-
Cash	559.3	894.4	1,636.7	2,513.7
Total Current Assets	10,846.3	13,684.1	16,979.7	20,591.4
Creditors	4,999.0	5,989.8	7,185.6	8,249.2
Other Current Liabilities	2,336.0	2,522.6	2,488.2	2,495.9
Provisions	186.0	148.1	154.0	202.1
Total Current Liabilities	7,521.0	8,660.5	9,827.8	10,947.2
Net Current Assets	3,325.3	5,023.6	7,151.9	9,644.2
Others Non Current Assets	1,038.0	1,088.0	1,138.0	1,138.0
Application of Funds	8,825.3	10,521.7	12,826.9	15,436.9

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
(Year-end March)	FY21A	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	11.0	24.5	32.5	39.1
Cash EPS	15.3	28.9	37.3	44.3
BV	84.4	105.0	131.0	160.3
DPS	4.0	4.0	6.5	9.8
Cash Per Share	6.3	10.1	18.4	28.3
Operating Ratios				
EBITDA Margin (%)	8.0	11.8	12.7	12.8
PBT Margin (%)	6.2	10.4	11.5	11.7
PAT Margin (%)	4.5	7.8	8.6	8.8
Inventory days	141.8	135.0	135.0	135.0
Debtor days	6.2	6.0	6.0	6.0
Creditor days	84.3	78.0	78.0	76.0
Return Ratios (%)				
RoE	13.0	23.4	24.8	24.4
RoCE	17.6	31.1	32.9	32.2
RoIC	31.7	50.6	52.9	40.3
Valuation Ratios (x)				
P/E	196.0	87.5	66.1	54.9
EV / EBITDA	108.7	56.7	43.7	37.2
EV / Net Sales	8.7	6.7	5.5	4.8
Market Cap / Sales	8.8	6.8	5.7	4.8
Price to Book Value	25.4	20.5	16.4	13.4
Solvency Ratios				
Debt/EBITDA	0.1	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.4	1.6	1.7	1.9
Quick Ratio	0.3	0.4	0.5	0.5

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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