

April 7, 2021

Company Update

Change in Estimates | Target | Reco

Change in Estimates

| | Current | | Previous | |
|----------------|------------|----------|----------|----------|
| | FY22E | FY23E | FY22E | FY23E |
| Rating | ACCUMULATE | | HOLD | |
| Target Price | 1,663 | | 1,601 | |
| Sales (Rs. m) | 2,60,634 | 3,04,593 | 2,57,983 | 3,02,321 |
| % Chng. | 1.0 | 0.8 | | |
| EBITDA (Rs. m) | 33,299 | 38,409 | 33,369 | 38,651 |
| % Chng. | (0.2) | (0.6) | | |
| EPS (Rs.) | 25.4 | 30.0 | 25.6 | 30.3 |
| % Chng. | (0.6) | (0.9) | | |

Key Financials - Standalone

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|-----------------|------|--------|-------|-------|
| Sales (Rs. bn) | 200 | 207 | 261 | 305 |
| EBITDA (Rs. bn) | 24 | 17 | 33 | 38 |
| Margin (%) | 12.2 | 8.2 | 12.8 | 12.6 |
| PAT (Rs. bn) | 15 | 10 | 23 | 27 |
| EPS (Rs.) | 17.1 | 11.7 | 25.4 | 30.0 |
| Gr. (%) | 5.1 | (31.4) | 117.1 | 18.0 |
| DPS (Rs.) | 5.0 | 3.5 | 4.5 | 5.0 |
| Yield (%) | 0.3 | 0.2 | 0.3 | 0.3 |
| RoE (%) | 23.3 | 14.5 | 26.6 | 25.3 |
| RoCE (%) | 24.4 | 14.1 | 26.0 | 26.0 |
| EV/Sales (x) | 6.8 | 6.6 | 5.2 | 4.4 |
| EV/EBITDA (x) | 56.0 | 79.9 | 40.4 | 34.7 |
| PE (x) | 88.8 | 129.5 | 59.6 | 50.6 |
| P/BV (x) | 19.7 | 17.8 | 14.3 | 11.6 |

Key Data

TITN.BO | TTAN IN

| | |
|---------------------|------------------------|
| 52-W High / Low | Rs.1,621 / Rs.810 |
| Sensex / Nifty | 49,662 / 14,819 |
| Market Cap | Rs.1,347bn/ \$ 18,070m |
| Shares Outstanding | 888m |
| 3M Avg. Daily Value | Rs.6614.24m |

Shareholding Pattern (%)

| | |
|-------------------------|-------|
| Promoter's | 52.90 |
| Foreign | 18.59 |
| Domestic Institution | 10.86 |
| Public & Others | 17.65 |
| Promoter Pledge (Rs bn) | - |

Stock Performance (%)

| | 1M | 6M | 12M |
|----------|-----|-------|-------|
| Absolute | 2.9 | 21.0 | 60.2 |
| Relative | 4.5 | (2.8) | (3.0) |

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Story is getting better: Accumulate

We are upgrading TTAN from Hold to Accumulate post robust performance in 4Q led by 1) 60% growth in Jewellery led by weddings 2) 90% recovery with flat sales in watches 3) 20% growth in Eyewear and 4) 80% growth in new ventures led by Taneira. We believe spike in covid-19 cases, region wise lockdowns and restriction in operations are likely to impact near term sales. We believe that omni-channel strategy across jewellery, watches and eyewear will neutralise impact to some extent. We believe segments like Taneira, Eyewear and entry into Over the Head headphones and Truly Wireless earphones will emerge as major growth drivers in coming years.

We have revised FY21 estimates by 2.8% on back of better than expected recovery in jewellery and eyewear division, while we have revised estimates for FY22/23 by -0.6%/-0.9% due to marginal margin contraction by 10bps/20bps. We estimate 34.5% PAT CAGR over FY20-23. We upgrade our rating to ACCUMULATE with TP of Rs 1663 (earlier Rs 1601) on DCF basis as TTAN's long term structural story remains intact 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. Upgrade to Accumulate.

- Jewellery** sales up 70% (32% growth in Jan & Feb 21) driven by market share gains, sharp decline in gold prices and large B2B order (10% contribution). Both metros and non-metro recorded robust growth. During the year, wedding jewellery was major contributor to the overall growth resulting in increased share of wedding jewellery to overall sales. In 4Q, margins are likely to be lower due to lower studded sales and higher coin sales compared to LY and high procurement price of gold before reduction in custom duty in Feb. Ticket size is still higher than LY while there is a double digit growth in no of buyers. Added 26 Tanishq stores on a net basis in FY21, with the retail space addition being -123K sq.ft The division started 'Rivaah Aashirwaad,' the wedding Jewellery campaign and campaign for engagement rings with a digital film. To enhance its portfolio, the brand launched 'The Cupid Edit,' 'The Cocktail Edit' and 'The Initial Edit' collections.
- Watches** recovery at 90% in Jan-Feb 21 and flat revenues in Mar-21 (on low base) driven by E-com, metros and mall stores. TTAN launched the Edge Mechanical, the slimmest mechanical watch by Titan, with a 2.2 mm slim in-house hand-wound movement. Added 13 WOT stores, 11 Helios stores and closed 13 Fastrack stores, adding 1.5 K sq. ft. of retail space in FY21.
- Eyewear** revenues up 20% led by Titan Eye Plus channel. IT also launched its first 'Fastrack' branded eyewear store. Added 15 stores on a net basis, with addition of about 1.8 K sq. feet of retail space.
- Caratlane** delivered a growth of 60%. B2C business grew at 26%. Shaya, (launched by Caratlane 2 years ago) grew by 136% during the year. Added 25 stores in FY21., 14% in 2Q21.

- **Taneira** conducted over 50 trunk shows & pop ups in various parts of the country and the same has seen good traction among saree buyers, especially in smaller cities. It launched "Parichay: Song of the Forest" collection that uses natural and sustainable fabrics birthing from the idea of circular fashion, and "Heritage collection" an exquisite range of bridal & wedding sarees with a reflection of vintage charm.
- **Fragrances** sales recovery at ~80%. Trade has started recovering well especially in Feb and March. Sales in the World of Titan stores has started growing at 7%. Ecommerce continues to grow with customers moving to online purchasing. Sales in LFS continue to lag compared to other channels.
- **Accessories** sales recovery at ~50%. The recovery is low in two of the biggest channels, trade and LFS. LFS has been slow because of the lower walk-ins into malls and Trade due to lack of demand for the "guys" bags, which is a significant contributor to this channel. Business from e-commerce has grown by 2.3x.
- **TTAN** entered audio accessories with Over the Head (OTH) headphones and Truly Wireless (TWS) earphones, which offer huge growth potential.

Exhibit 1: We expect 63.1% revenue growth, 2x adj PAT growth

| Particulars (Rs m) | Q4FY21E | Q4FY20 | YoY gr. (%) | Q3FY21 | QoQ gr. (%) | Remarks |
|-----------------------------|---------|--------|-------------|--------|-------------|--|
| Sales | 72,244 | 44,288 | 63.1 | 72,870 | (0.9) | |
| EBITDA | 7,984 | 6,037 | 58.5 | 8,580 | 11.5 | |
| Margin (%) | 11.1 | 13.6 | | 11.8 | | |
| PBT | 7,228 | 5,156 | 70.9 | 7,650 | 15.2 | |
| Adj. PAT | 5,553 | 3,568 | 100.0 | 5,560 | 28.4 | |
| Jewellery Volume Growth (%) | 45 | (20.0) | | (15.0) | | We expect 45% volume growth in Jewellery on back of correction in gold prices, high demand of wedding jewellery and market share gains. While margins will taper off by 340bps due to lower studded ratio and higher procurement costs pre-increase in custom duty. We expect -12% volume in watches. Watchout for commentary on operational stores and hours as well as demand scenario due to lockdowns. |
| Jewellery Margins (%) | 10.8 | 14.2 | | 11.4 | | |
| Watch Volume Growth (%) | (12.0) | (5.0) | | (26.0) | | |
| Watch Margins (%) | 12.9 | 13.0 | | 10.4 | | |

Source: Company, PL

Exhibit 2: Stage Set for sharp recovery in FY22

| (Rs m) | FY17 | FY18 | FY19 | FY20E | FY21E | FY22E | FY23E |
|------------------|----------|----------|----------|----------|----------|----------|----------|
| Jewellery | | | | | | | |
| Sales | 1,04,752 | 1,30,231 | 1,59,881 | 1,66,983 | 1,85,877 | 2,26,525 | 2,64,695 |
| Growth % | 20.4 | 24.3 | 22.8 | 4.4 | 11.3 | 21.9 | 16.9 |
| EBIDTA | 11,232 | 15,893 | 19,996 | 21,813 | 18,023 | 29,672 | 34,094 |
| Growth % | 36.8 | 41.5 | 25.8 | 9.1 | (17.4) | 64.6 | 14.9 |
| EBIDTA Margin % | 10.7 | 12.2 | 12.5 | 13.1 | 9.7 | 13.1 | 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 | 4,412 | 5,256 |
| Growth % | 18.5 | 29.7 | 15.9 | 6.1 | (99.2) | 13,840.0 | 19.1 |
| EBIDTA Margin % | 11.8 | 15.0 | 14.6 | 15.0 | 0.2 | 17.0 | 18.0 |

Source: PL

Financials

Income Statement (Rs m)

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|
| Net Revenues | 2,00,302 | 2,06,914 | 2,60,634 | 3,04,593 |
| YoY gr. (%) | 4.9 | 3.3 | 26.0 | 16.9 |
| Cost of Goods Sold | 1,45,119 | 1,58,899 | 1,91,057 | 2,14,466 |
| Gross Profit | 55,183 | 48,015 | 69,578 | 90,127 |
| Margin (%) | 27.5 | 23.2 | 26.7 | 29.6 |
| Employee Cost | 10,401 | 11,377 | 12,508 | 14,618 |
| Other Expenses | 8,360 | 8,851 | 11,833 | 23,022 |
| EBITDA | 24,381 | 17,044 | 33,299 | 38,409 |
| YoY gr. (%) | 19.9 | (30.1) | 95.4 | 15.3 |
| Margin (%) | 12.2 | 8.2 | 12.8 | 12.6 |
| Depreciation and Amortization | 3,097 | 3,311 | 3,643 | 3,959 |
| EBIT | 21,285 | 13,733 | 29,657 | 34,450 |
| Margin (%) | 10.6 | 6.6 | 11.4 | 11.3 |
| Net Interest | 1,495 | 1,575 | 1,736 | 1,830 |
| Other Income | 1,258 | 1,750 | 2,263 | 2,989 |
| Profit Before Tax | 21,048 | 13,908 | 30,184 | 35,609 |
| Margin (%) | 10.5 | 6.7 | 11.6 | 11.7 |
| Total Tax | 5,873 | 3,505 | 7,597 | 8,963 |
| Effective tax rate (%) | 27.9 | 25.2 | 25.2 | 25.2 |
| Profit after tax | 15,175 | 10,403 | 22,586 | 26,646 |
| Minority interest | - | - | - | - |
| Share Profit from Associate | - | - | - | - |
| Adjusted PAT | 15,175 | 10,403 | 22,586 | 26,646 |
| YoY gr. (%) | 5.1 | (31.4) | 117.1 | 18.0 |
| Margin (%) | 7.6 | 5.0 | 8.7 | 8.7 |
| Extra Ord. Income / (Exp) | - | - | - | - |
| Reported PAT | 15,175 | 10,403 | 22,586 | 26,646 |
| YoY gr. (%) | 10.4 | (31.4) | 117.1 | 18.0 |
| Margin (%) | 7.6 | 5.0 | 8.7 | 8.7 |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income | 15,175 | 10,403 | 22,586 | 26,646 |
| Equity Shares O/s (m) | 888 | 888 | 888 | 888 |
| EPS (Rs) | 17.1 | 11.7 | 25.4 | 30.0 |

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Non-Current Assets | | | | |
| Gross Block | 21,707 | 23,810 | 25,913 | 28,017 |
| Tangibles | 19,988 | 22,088 | 24,188 | 26,289 |
| Intangibles | 1,719 | 1,722 | 1,725 | 1,728 |
| Acc: Dep / Amortization | 9,876 | 12,818 | 16,073 | 19,643 |
| Tangibles | 8,802 | 11,667 | 14,847 | 18,342 |
| Intangibles | 1,074 | 1,151 | 1,226 | 1,301 |
| Net fixed assets | 11,831 | 10,992 | 9,840 | 8,374 |
| Tangibles | 11,186 | 10,421 | 9,341 | 7,947 |
| Intangibles | 645 | 571 | 499 | 427 |
| Capital Work In Progress | 138 | 154 | 172 | 194 |
| Goodwill | - | - | - | - |
| Non-Current Investments | 12,082 | 13,290 | 14,619 | 16,081 |
| Net Deferred tax assets | 1,721 | 207 | 261 | 305 |
| Other Non-Current Assets | 10,760 | 11,071 | 11,392 | 11,725 |
| Current Assets | | | | |
| Investments | 3,292 | 3,913 | 4,653 | 5,535 |
| Inventories | 77,406 | 86,269 | 96,549 | 1,11,814 |
| Trade receivables | 2,144 | 2,267 | 3,213 | 3,755 |
| Cash & Bank Balance | 1,007 | 12,348 | 23,541 | 34,138 |
| Other Current Assets | 6,371 | 2,586 | 3,258 | 3,807 |
| Total Assets | 1,31,878 | 1,48,480 | 1,73,150 | 2,01,661 |
| Equity | | | | |
| Equity Share Capital | 888 | 888 | 888 | 888 |
| Other Equity | 67,360 | 74,656 | 93,247 | 1,15,454 |
| Total Network | 68,247 | 75,543 | 94,135 | 1,16,342 |
| Non-Current Liabilities | | | | |
| Long Term borrowings | - | - | - | - |
| Provisions | 1,525 | 1,448 | 1,824 | 2,132 |
| Other non current liabilities | 9,668 | 10,151 | 11,166 | 12,283 |
| Current Liabilities | | | | |
| ST Debt / Current of LT Debt | 21,332 | 30,241 | 27,890 | 26,854 |
| Trade payables | 5,099 | 6,800 | 7,829 | 8,773 |
| Other current liabilities | 26,008 | 24,296 | 30,306 | 35,277 |
| Total Equity & Liabilities | 1,31,878 | 1,48,480 | 1,73,150 | 2,01,661 |

Source: Company Data, PL Research

Cash Flow (Rs m)

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|--------------------------------------|----------------|----------------|----------------|----------------|
| PBT | 21,048 | 13,908 | 30,184 | 35,609 |
| Add. Depreciation | 3,097 | 3,311 | 3,643 | 3,959 |
| Add. Interest | 445 | 1,495 | 1,575 | 1,736 |
| Less Financial Other Income | 1,258 | 1,750 | 2,263 | 2,989 |
| Add. Other | (639) | 1,311 | 687 | 686 |
| Op. profit before WC changes | 23,950 | 20,024 | 36,088 | 41,990 |
| Net Changes-WC | (12,644) | 1,820 | (4,718) | (8,879) |
| Direct tax | (5,872) | (3,505) | (7,597) | (8,963) |
| Net cash from Op. activities | 5,434 | 18,339 | 23,773 | 24,149 |
| Capital expenditures | (4,116) | (2,488) | (2,509) | (2,514) |
| Interest / Dividend Income | - | - | - | - |
| Others | (1,024) | (909) | (1,000) | (1,100) |
| Net Cash from Inv. activities | (5,140) | (3,397) | (3,509) | (3,614) |
| Issue of share cap. / premium | (3,394) | - | - | - |
| Debt changes | 6,262 | 1,000 | (3,500) | (3,762) |
| 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) | (3,602) | (9,070) | (9,937) |
| Net change in cash | (2,633) | 11,340 | 11,193 | 10,597 |
| Free Cash Flow | 1,318 | 15,851 | 21,264 | 21,634 |

Source: Company Data, PL Research

Quarterly Financials (Rs m)

| Y/e Mar | Q1FY21 | Q2FY21 | Q3FY21 | Q4FY21E |
|-----------------------------------|----------------|---------------|---------------|---------------|
| Net Revenue | 18,620 | 43,180 | 72,870 | 72,244 |
| YoY gr. (%) | (62.3) | (2.6) | 17.4 | 63.1 |
| Raw Material Expenses | 14,780 | 29,870 | 56,930 | 57,319 |
| Gross Profit | 3,840 | 13,310 | 15,940 | 14,925 |
| Margin (%) | 20.6 | 30.8 | 21.9 | 20.7 |
| EBITDA | (2,460) | 2,940 | 8,580 | 9,567 |
| YoY gr. (%) | (143.5) | (42.7) | 16.6 | 58.5 |
| Margin (%) | (13.2) | 6.8 | 11.8 | 13.2 |
| Depreciation / Depletion | 820 | 830 | 840 | 821 |
| EBIT | (3,280) | 2,110 | 7,740 | 8,747 |
| Margin (%) | (17.6) | 4.9 | 10.6 | 12.1 |
| Net Interest | 460 | 440 | 460 | 215 |
| Other Income | 390 | 710 | 370 | 280 |
| Profit before Tax | (3,350) | 2,380 | 7,650 | 8,812 |
| Margin (%) | (18.0) | 5.5 | 10.5 | 12.2 |
| Total Tax | (650) | 390 | 2,090 | 1,675 |
| Effective tax rate (%) | 19.4 | 16.4 | 27.3 | 19.0 |
| Profit after Tax | (2,700) | 1,990 | 5,560 | 7,137 |
| Minority interest | - | - | - | - |
| Share Profit from Associates | - | - | - | - |
| Adjusted PAT | (2,700) | 1,990 | 5,560 | 7,137 |
| YoY gr. (%) | (172.8) | (37.8) | 18.3 | 100.0 |
| Margin (%) | (14.5) | 4.6 | 7.6 | 9.9 |
| Extra Ord. Income / (Exp) | - | - | (1,370) | - |
| Reported PAT | (2,700) | 1,990 | 4,190 | 7,137 |
| YoY gr. (%) | (172.8) | (37.8) | (10.8) | 100.0 |
| Margin (%) | (14.5) | 4.6 | 5.7 | 9.9 |
| Other Comprehensive Income | (1,500) | 3,130 | 60 | - |
| Total Comprehensive Income | (4,200) | 5,120 | 4,250 | 7,137 |
| Avg. Shares O/s (m) | 888 | 888 | 888 | - |
| EPS (Rs) | (3.0) | 2.2 | 6.3 | - |

Source: Company Data, PL Research

Key Financial Metrics

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|----------------------------|------|-------|-------|-------|
| Per Share(Rs) | | | | |
| EPS | 17.1 | 11.7 | 25.4 | 30.0 |
| CEPS | 20.6 | 15.4 | 29.5 | 34.5 |
| BVPS | 76.9 | 85.1 | 106.0 | 131.0 |
| FCF | 1.5 | 17.9 | 24.0 | 24.4 |
| DPS | 5.0 | 3.5 | 4.5 | 5.0 |
| Return Ratio(%) | | | | |
| RoCE | 24.4 | 14.1 | 26.0 | 26.0 |
| ROIC | 16.7 | 10.4 | 20.5 | 21.3 |
| RoE | 23.3 | 14.5 | 26.6 | 25.3 |
| Balance Sheet | | | | |
| Net Debt : Equity (x) | 0.2 | 0.2 | - | (0.1) |
| Net Working Capital (Days) | 136 | 144 | 129 | 128 |
| Valuation(x) | | | | |
| PER | 88.8 | 129.5 | 59.6 | 50.6 |
| P/B | 19.7 | 17.8 | 14.3 | 11.6 |
| P/CEPS | 73.7 | 98.2 | 51.4 | 44.0 |
| EV/EBITDA | 56.0 | 79.9 | 40.4 | 34.7 |
| EV/Sales | 6.8 | 6.6 | 5.2 | 4.4 |
| Dividend Yield (%) | 0.3 | 0.2 | 0.3 | 0.3 |

Source: Company Data, PL Research

Price Chart
Recommendation History


| No. | Date | Rating | TP (Rs.) | Share Price (Rs.) |
|-----|-----------|------------|----------|-------------------|
| 1 | 07-Apr-21 | Accumulate | 1,663 | 1,518 |
| 2 | 10-Feb-21 | Hold | 1,601 | 1,563 |
| 3 | 07-Jan-21 | UR | - | 1,573 |
| 4 | 28-Oct-20 | Accumulate | 1,352 | 1,217 |
| 5 | 08-Oct-20 | Accumulate | 1,352 | 1,254 |
| 6 | 08-Oct-20 | Accumulate | 1,352 | 1,254 |
| 7 | 10-Aug-20 | Hold | 1,057 | 1,108 |
| 8 | 08-Jul-20 | Hold | 1,025 | 1,016 |
| 9 | 09-Jun-20 | Hold | 936 | 997 |
| 10 | 05-May-20 | Hold | 844 | 892 |

Analyst Coverage Universe

| Sr. No. | Company Name | Rating | TP (Rs) | Share Price (Rs) |
|---------|---------------------------------------|------------|---------|------------------|
| 1 | Asian Paints | Hold | 2,829 | 2,622 |
| 2 | Avenue Supermarts | BUY | 3,195 | 2,880 |
| 3 | Bajaj Electricals | BUY | 1,033 | 991 |
| 4 | Britannia Industries | BUY | 4,189 | 3,795 |
| 5 | Burger King India | BUY | 221 | 145 |
| 6 | Colgate Palmolive | Hold | 1,685 | 1,551 |
| 7 | Crompton Greaves Consumer Electricals | BUY | 447 | 374 |
| 8 | Dabur India | Accumulate | 550 | 552 |
| 9 | Emami | BUY | 568 | 507 |
| 10 | GlaxoSmithKline Consumer Healthcare | Hold | 9,377 | 9,247 |
| 11 | Havells India | Hold | 1,128 | 1,026 |
| 12 | Hindustan Unilever | BUY | 2,509 | 2,400 |
| 13 | ITC | BUY | 248 | 214 |
| 14 | Jubilant FoodWorks | Accumulate | 3,279 | 2,862 |
| 15 | Kansai Nerolac Paints | BUY | 653 | 596 |
| 16 | Marico | Accumulate | 441 | 407 |
| 17 | Nestle India | Accumulate | 17,364 | 17,417 |
| 18 | Pidilite Industries | Hold | 1,739 | 1,886 |
| 19 | Polycab India | BUY | 1,480 | 1,376 |
| 20 | Titan Company | Accumulate | 1,663 | 1,518 |
| 21 | Voltas | Hold | 1,000 | 977 |
| 22 | Westlife Development | BUY | 618 | 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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