

Stock Update

Another good quarter

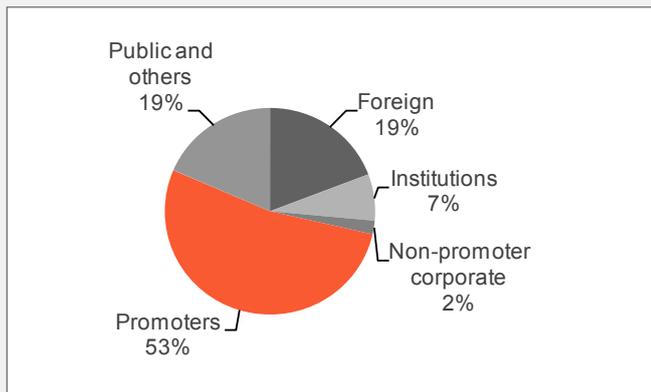
Titan Company Ltd

Reco: Buy | CMP: Rs1,088

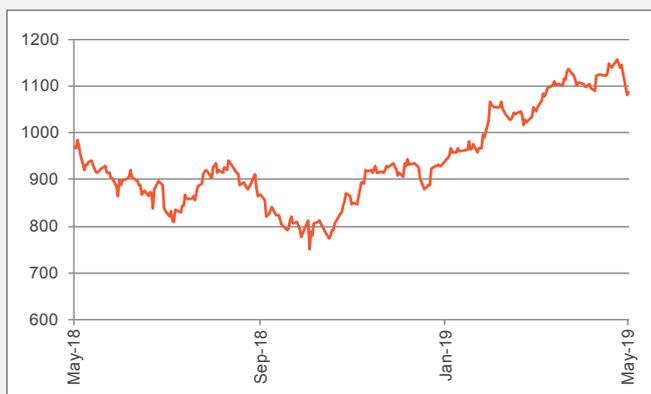
Company details

Price target:	Rs1,260
Market cap:	Rs96,591 cr
52-week high/low:	Rs1,164/732
NSE volume: (No of shares)	24.3 lakh
BSE code:	500114
NSE code:	TITAN
Sharekhan code:	TITAN
Free float: (No of shares)	41.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.8	2.8	27.8	12.6
Relative to Sensex	-1.1	-1.7	15.6	0.6

Key points

- ♦ **Strong performance continues:** During Q4FY2019, Titan once again witnessed strong performance. Revenue grew by ~19% and adjusted profit after tax (PAT) grew by 30.4% y-o-y to Rs. 404.2 crore (in-line with our expectation of Rs. 403 crore for the quarter). Jewellery business retained its strong footing, with 21% revenue growth. Eyewear business grew by 20%. Gross margins, however, declined marginally by 150BPS to 27.9%. OPM marginally increased by 21BPS to 10.8% due to operating efficiencies and improving profitability of key subsidiaries. Operating profit grew by 21.4% y-o-y to Rs. 528.5 crore. Other income grew 3x to Rs. 56.3 crore mainly on higher interest income and profit on sale of investment (sold entire shareholding in Titan Time Products) of Rs. 4.9 crore. Strong operating profit and higher other income led to 30.4% growth in adjusted PAT to Rs. 404.2 crore. During the quarter, Titan made an additional provision of Rs. 46 crore (Rs. 32.2 crore after taxes) for its investment in a troubled non-banking financial company (NBFC). Moreover, there was one-time ex-gratia expense of Rs. 34 crore for employees made during the quarter. Reported PAT grew by 14.4% to Rs. 348.2 crore.
- ♦ **Jewellery business maintained strong growth; Watches and eyewear margins declined y-o-y:** Revenue of the jewellery business grew by 21% in Q4FY2019, driven by increased reach and shift from non-branded to branded players. EBIT margin declined by 90BPS to 12.8%, largely on account of higher gold prices. Revenue of the watches business grew by just 7%, as Q4 is a seasonally weak quarter for the business. EBIT margin declined by 166BPS to 5.5% mainly on account of lower gross margins due to product and channel mix and ex-gratia provision made to employees. Revenue of the eyewear business grew by 20% y-o-y because of healthy same-store-sales growth of 14%, network expansion and commencement of distribution of frames. The eyewear division made a loss of Rs. 1.7 crore mainly on account of higher investment in brands through advertising. Among subsidiaries, revenue of Caratlane grew by 64% y-o-y and losses at EBIT level reduced to Rs. 14 crore in Q4FY2019.

- ♦ **Outlook – Jewellery business to grow by 20%; Profitability from watches to improve as scale increases:** FY2020 started on a good note for the jewellery business, with the first 40 days of business registering ~19% growth; and it is likely to continue, as June is expected to be a strong month in view of the marriage season. Further, the wedding segment (contributes 20% to the jewellery business) is expected to achieve double-digit revenue growth due to 40% more wedding days compared to FY2019. This along with expansion into tier II and tier III markets and continuous shift from non-branded to branded jewellery players would help Titan's jewellery business to grow by 20% in FY2020. Profitability of the watches business and eyewear business will improve with increased scale of business. On the subsidiary front, Caratlane (online jewellery business) is expected to maintain strong revenue growth and is likely to be EBIT

positive in FY2020, while Titan Engineering and Automation Limited (TEAL) is expected to maintain strong performance in the near term.

- ♦ **Maintain Buy with an upward PT of Rs1260:** FY2019 was one of the strong years for Titan and we expect strong growth momentum to sustain in FY2020/FY2021. We have marginally increased our earnings estimates by 3% and 2% for FY2020E and FY2021E, respectively, to factor in higher-than-earlier-expected growth in the jewellery business. We expect revenue and PAT to generate a CAGR of 16% and 23%, respectively, over FY2019-FY2021. In view of a lean balance sheet and strong earnings visibility, Titan remains one of our top picks in the discretionary space. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 1,260 (valuing stock at 36x its FY2021 EV/EBIDTA).

Valuations (consolidated)

Particulars	Rs cr				
	FY2017	FY2018	FY2019	FY2020E	FY2021E
Net Sales	13260.8	16119.8	19778.5	23089.4	26555.8
OPM (%)	8.7	10.2	11.0	11.5	11.6
Adjusted PAT (Rs cr)	801.7	1121.3	1516.8	1854.6	2162.4
Adjusted EPS (Rs.)	9.0	12.6	17.1	20.9	24.4
PE(X)	120.5	86.4	63.8	52.1	44.7
EV/EBIDTA (X)	83.1	58.5	44.1	35.9	30.5
RoE (%)	20.7	24.1	27.2	27.5	26.3
RoCE (%)	27.2	32.3	37.2	37.5	36.0

Results (consolidated)

Particulars	Rs cr				
	Q4FY19	Q4FY18	YoY %	Q3FY19	QoQ %
Total Revenue	4888.8	4107.2	19.0	5871.5	-16.7
Raw material cost	3525.7	2900.3	21.6	4366.0	-19.2
Employee cost	252.6	246.3	2.6	249.1	1.4
Advertising	138.3	111.5	24.0	156.2	-11.5
Other expenses	443.7	413.7	7.3	439.0	1.1
Total operating cost	4360.3	3671.8	18.8	5210.3	-16.3
Operating profit	528.5	435.5	21.4	661.2	-20.1
Other income	56.3	18.5	-	62.6	-10.1
Interest & other financial cost	12.5	16.7	-25.3	15.7	-20.3
Depreciation	40.8	36.0	13.6	38.5	6.2
Profit Before Tax	531.5	401.3	32.4	669.7	-20.6
Tax	127.2	91.2	39.6	209.5	-39.3
Adjusted PAT before MI	404.2	310.1	30.4	460.2	-12.2
Extraordinary item	56.0	3.8	-	49.0	14.3
Minority Interest (MI)	0.0	-1.9	-	-0.1	-
Reported PAT	348.2	304.4	14.4	411.1	-15.3
Adjusted EPS (Rs.)	4.55	3.49	30.4	5.18	-12.2
			BPS		BPS
GPM (%)	27.9	29.4	-15.0	25.6	22.4
OPM (%)	10.8	10.6	21	11.3	-45

Jewellery business – Strong growth to sustain

In Q4FY2019, the jewellery division recorded strong revenue growth of 21% y-o-y to Rs. 3,986 crore as against Rs. 3,292 crore in Q4FY2018 because of good growth in both studded and wedding jewellery categories, with collections such as Gulnaaz, Utsava and Preen being major hits this year. On a consolidated basis, revenue grew by 15% y-o-y to Rs. 4,105 crore. EBIT margin (before exceptional items) stood at 12.8% on a standalone basis and 12.2% on a consolidated basis, down 100 BPS due to increase in the gold prices and higher advertisement spends. Studded jewellery contributed to about 30%, whereas wedding jewellery contributed to around 20% to overall jewellery sales during the quarter. Golden Harvest and Gold Exchange Programmes continue to drive customer acquisitions (with 20% and 40% revenue contribution for GHS and exchange programmes, respectively). Tanishq added 34 stores in FY2019, primarily in middle India towns, adding 87,000 sq. ft. on net basis. Gold valuation at year-end took a hit due to lower gold prices in the second half of the quarter, impacting margins by Rs. 37 crore, which is expected to be largely reversed in the next quarter. Management expects the jewellery business in FY2020 to grow by ~20% because of a ~40% increase in wedding dates as compared to FY2019 and an increasing contribution of studded jewellery.

Watches business – Decent performance

As regards watches, performance was modest after strong growth in the first three quarters, with the category rising by 7% y-o-y to Rs. 531 crore in Q4FY2019, led by launch of new products and refreshing collections across Titan, Fastrack and Sonata. EBIT margin stood at 5.5% on a standalone basis and 2.3% on a consolidated basis, impacted by lower gross margin due to product and channel mix. The division saw broad-based growth across channels, with the e-commerce channel witnessing the fastest growth rate. The wearables category grew at a very strong rate of ~80%, crossing the revenue mark of Rs. 100 crore during this quarter. The wearables category was backed by strong multi-channel campaigns to build market awareness and is expected to grow rapidly. The division added six Fastrack and six Helios stores in FY2019 on net basis.

Eyewear business – Investment in advertising to drive growth

For Q4FY2019, revenue of the eyewear business grew by 20% y-o-y to Rs. 130 crore, driven by like-

to-like sales growth of 14%, network expansion and commencement of frames distribution in FY2019. The Company did EBIT loss of Rs1.5crore in Q4FY2019 mainly because the company spent heavily on advertising on the eyewear category. Titan added 37 stores in FY2019, adding 24,000 sq. ft. of retail space on net basis.

Fragrances and Taneira – Strong vision in Taneira anticipated

Skinn remained the best seller in the fragrance category in departmental chain stores, despite international brands being on discounts during the quarter. It crossed Rs. 120 crore in sales during the quarter, selling more than 1 million units. Taneira ended the year with four stores and the company intends to add 14 more stores by the end of next year and plans to expand in 20 cities in the next five years. The division launched a collection of bridal lehengas and sarees, accompanied with a digital campaign. The initial response to the stores has been encouraging.

Other businesses – Caratlane leads the growth

- ◆ TEAL, which is a 100% owned subsidiary, failed to perform this quarter with the revenue declining by 14% y-o-y. However, the subsidiary registered 42% growth for FY2019, led by strong performance of both the segments, aerospace and defence (A&D) and healthy order wins.
- ◆ Caratlane (69.5% owned subsidiary) recorded 66% y-o-y revenue growth in Q4FY2019, primarily due to network expansion. It continues to enjoy good gross margins on account of better pricing and product mix. Focusing on its omni-channel strategy, Caratlane added 19 stores to its network in FY2019, taking the total store count to 55. Caratlane is expected to be EBIT positive in FY2020
- ◆ Favre Leuba (100% owned subsidiary) launched two new models in FY2019, which have been receiving good response.
- ◆ Mont Blanc (JV with a 49% stake) opened three new stores in FY2019, taking the total count to 12 stores, leading to strong growth due to network expansion. The company expects this JV to be profitable in three years.

Segmental revenue						Rs cr
Particulars	Q4FY19	Q4FY18	Growth (%)	FY2019	FY2018	Growth (%)
Watches	531	494	7.5	2441	2126	14.8
Jewellery	3986	3292	21.1	16030	13036	23.0
Eyewear	130	109	19.3	511	415	23.1
Others/Corporate	80	42	90.5	267	165	61.8
Standalone	4727	3937	20.1	19249	15742	22.3
Caratlane	138	84	64.3	421	293	43.7
TEAL	101	117	-13.7	358	253	41.5
Others/Consol. Adj	-21	-11	-	-66	-42	-
Consolidated	4945	4127	19.8	19962	16246	22.9

Segmental EBIT						Rs cr
Particulars	Q4FY19	Q4FY18	Growth (%)	FY2019	FY2018	Growth (%)
Watches	29	39	-25.6	316	272	16.2
Jewellery	512	453	13.0	1948	1545	26.1
Eyewear	-2	2	-	-2	2	-
Others/Corporate	-62	-50	-	-220	-110	-
Standalone	477	444	7.4	2042	1709	19.5
Caratlane	-14	-33	-	-38	-82	-
TEAL	20	17	17.6	60	20	200.0
Others/Consol. Adj	-13	-18	-	-48	-54	-
Consolidated	470	410	14.6	2016	1593	26.6

EBIT Margin						
Particulars	Q4FY19	Q4FY18	BPS	FY2019	FY2018	BPS
Watches	5.5	7.9	-243	12.9	12.8	15
Jewellery	12.8	13.8	-92	12.2	11.9	30
Eyewear	-1.5	1.8	-	-0.4	0.5	-
Standalone	10.1	11.3	-119	10.6	10.9	-25
Consolidated	9.5	9.9	-43	10.1	9.8	29

Retail Growth					
Particulars	Q4FY2019		FY2019		
	Sales value growth	LTL Growth	Sales value growth	LTL Growth	
Tanishq	20%	14%	22%	16%	
World of Titan	9%	7%	5%	3%	
Fastrack	8%	2%	6%	1%	
Helios	14%	6%	24%	6%	
LFS (for watches)	20%	16%	23%	20%	
Titan Eye+	21%	14%	20%	11%	

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

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