

Sector: Consumer Discretionary
Company Update

	Change
Reco: Buy	↔
CMP: Rs. 1,158	
Price Target: Rs. 1,445	↔

↑ Upgrade ↔ No change ↓ Downgrade

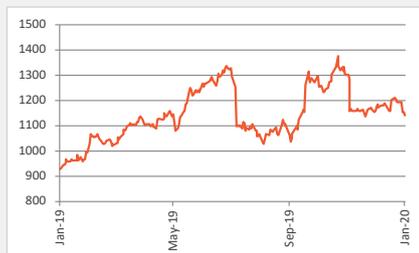
Company details

Market cap:	Rs. 1,02,806 cr
52-week high/low:	Rs. 1,390/920
NSE volume: (No of shares)	27.0 lakh
BSE code:	500114
NSE code:	TITAN
Sharekhan code:	TITAN
Free float: (No of shares)	41.8 cr

Shareholding (%)

Promoters	52.9
FII	19.4
DII	8.7
Others	19.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.6	-12.0	-13.8	23.0
Relative to Sensex	-3.5	-19.2	-17.6	4.1

Sharekhan Research, Bloomberg

Titan Company Limited (Titan) released its Q3FY2020 quarterly update, which indicated strong sequential improvement in its jewellery business which performed better than expectations. Revenue grew by 11% y-o-y (15% growth in the retail business) driven by good demand amid the wedding and festive season at the beginning of the quarter. However, an overall slowdown in discretionary spending and forced shop closures and disruptions in trade channels due to nation-wide protests affected the performance of the watches and the eyewear businesses, which stood almost flat. Allied businesses including subsidiaries such as TEAL and Caratlane performed exceptionally well registering strong revenue growth of 55% and 65%, respectively. We believe that Titan is on track to achieve its revised growth guidance for the jewellery business in H2FY2020 amid the ongoing wedding season. However, the performance of the watches and eyewear businesses is expected to remain soft. We maintain our Buy recommendation on the stock.

Q3FY2020 preview – Revenue to grow by ~9.7% largely due to pick up in jewellery business: We expect consolidated revenue to grow by ~9.7% y-o-y in Q3FY2020 to Rs. 6,444 crore, driven by good wedding/festive demand-led growth in the jewellery business whereas performance of the watches and eyewear businesses are expected to remain flat. Gross margins are expected to decline by ~39 bps to 25.3% due to increasing gold prices. This would result in OPM to also decline by ~24 bps to 11%. Operating profit is expected to grow by 7.4% y-o-y. However, lower tax outgo due to a reduction in corporate tax rate would drive up adjusted PAT by 16.2% y-o-y to Rs. 534.5 crore.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 1,445: We have broadly maintained our earnings estimates for FY2020E and FY2021E and will review our earnings estimates after the Q3FY2020 results are released. The jewellery division is expected to maintain its growth momentum in H2FY2020 whereas other key divisions are expected to remain soft in the near term owing to discretionary demand slowdown. Titan's stock has corrected by ~14% since November 2019 which has already factored in the near-term growth headwinds. Hence, we maintain our Buy recommendation on the stock with an unchanged price target of Rs. 1,445.

Key Risks

Further, a slowdown in discretionary consumption would act as a key risk to the demand of jewellery and watches division.

Valuation (Consolidated)

Particulars	FY18	FY19	FY20E	FY21E	FY22E
Revenue	15,946	19,592	21,566	25,546	30,562
OPM (%)	10.2	11.0	11.2	11.9	11.9
Adjusted PAT	1,124	1,519	1,641	2,034	2,475
% YoY growth	40.2	35.1	8.0	24.0	21.7
Adjusted EPS (Rs.)	12.6	17.1	18.5	22.9	27.9
P/E (x)	91.9	67.9	62.6	50.5	41.5
P/B (x)	20.2	16.9	14.5	12.0	9.8
EV/EBIDTA (x)	62.3	47.0	41.8	33.2	27.4
RoNW (%)	24.1	27.2	25.0	26.0	25.9
RoCE (%)	32.3	37.2	31.9	32.6	34.2

Source: Company; Sharekhan estimates

Jewellery – Performance in Q3 exceeded expectations

Titan’s jewellery division’s revenue grew by 11% in Q3FY2020 which was better than expectation, largely due to good wedding and festive season. The company had launched the ‘Virasat’ plain gold jewellery collection for the festive season. We expect good growth to sustain in H2FY2020 in the backdrop of the festive/wedding season. Thus, we expect the jewellery division to clock ~10% revenue growth in FY2020. The shift from non-branded to branded players and increased presence in middle - income markets through new stores remain key growth drivers for the jewellery division in the near to medium term. The company added 34 new Tanishq stores and 8 Mia stores till date with net retail space addition of 1,17,000 sq. ft. However, the company expects to add a total of only 50 stores for the year due to some operational delays in rollout.

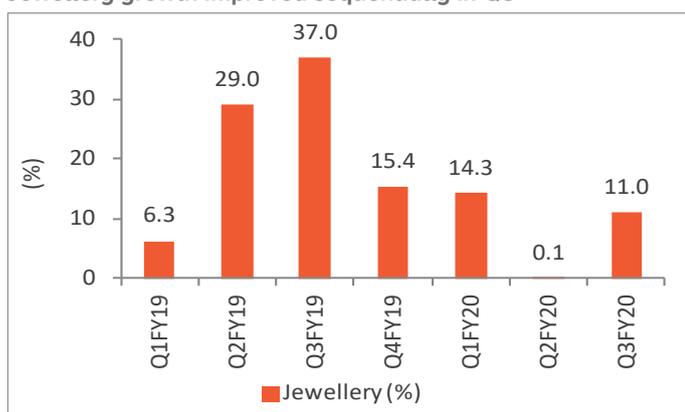
Watches and Eyewear businesses had a muted quarter

The watches business’ growth remained flat in Q3FY2020 affected by a sharp decline in primary sales to trade and e-commerce channels due to poor consumer sentiment and lower walk-ins. (The market itself declined by 4%). Wearables have been the new driver for the business and thus, during the quarter, the company acquired patented technology in the field of ‘Advance Gesture Recognition’ technology. The division launched hybrid watch collections under Titan and Sonata brands as well as various other launches under the Fastrack collection. The business added 26 stores on a net basis, ending with a net increase of about 8,000 sq. ft. of retail space. Eyewear business grew by just 2% affected by higher competitive activity and disruptions due to protests. The eyewear division added net 41 stores with retail space increase of about 27,000 sq. ft.

New and allied businesses are performing well

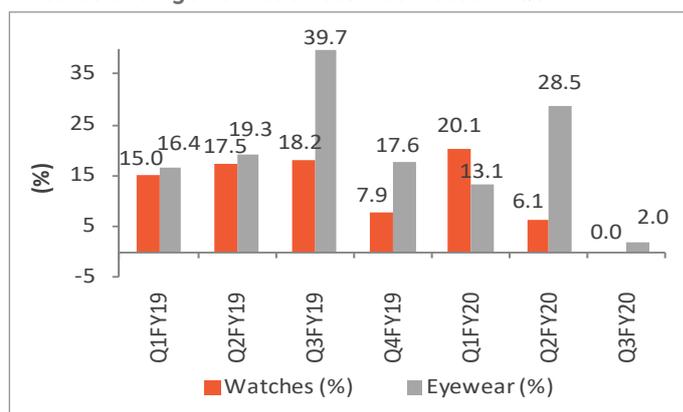
Skinn continues to increase its distribution reach and witnessed good growth of 20% during the quarter. Perfumes were also launched under the Fastrack brand during the quarter. Taneira opened three stores in Q3, one each in Bangalore, Mumbai and NCR, taking the total store count to ten covering five cities. The brand launched in-house designed collections called ‘Courtyard Tales’ and ‘Chokola’ during the period. Subsidiaries TEAL and Caratlane continued their strong growth momentum registering revenue growth of 55% and 65%, respectively in Q3FY2020. The company added 11 new Caratlane stores during the quarter, taking the total store count to 82.

Jewellery growth improved sequentially in Q3



Source: Company, Sharekhan Research

Watches and Eyewear business was muted in Q3



Source: Company, Sharekhan Research

About company

Titan is a joint venture between the Tata Group and Tamil Nadu Industrial Development Corporation (TIDCO). The company is a leading organised jeweller with its trusted brand Tanishq. The company started as a watchmaker under the brand Titan and is the fifth largest integrated own brand watch manufacturer in the world. The company's key watch brands are Titan, Fastrack and Sonata. The company is present in the eyewear segment with its brand Titan Eyeplus and in other segments such as perfumes. The company recently entered the saree market with its brand Taneira.

Investment theme

Titan is one of India's top retailers with a strong presence in discretionary product categories such as jewellery, watches and eyewear. It is one of the top brands in the watches segment, while in the jewellery space, it is gaining good acceptance because of the shift from non-branded to the branded space and expansion in middle income towns. The company aims to grow by 2.5x by FY2023 in the jewellery business. The eyewear division is scaling up and will support overall profitability in the near to medium term.

Key Risks

- ◆ Higher gold prices: Any rise in gold prices would affect profitability of the jewellery segment and earnings growth of the company.
- ◆ Slowdown in discretionary consumption: Any slowdown in discretionary consumption would act as a key risk to demand for jewellery and watches.
- ◆ Increased competition in highly penetrated categories: Stiff competition in the highly penetrated categories such as watches or jewellery would act as a threat to revenue growth.

Additional Data

Key management personnel

C K Venkataraman	Managing Director
N Muruganandam	Chairman
N N Tata	Vice Chairman
S Subramaniam	Chief Financial Officer
Dinesh Shetty	Company Secretary

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Republic of India	28.0
2	Jhunjhunwala Rakesh	5.8
3	BlackRock Inc	1.6
4	Jhunjhunwala Rekha Rakesh	1.3
5	Vanguard Group Inc	1.3
6	Matthews International Capital Management	1.1
7	Artisan Partners LP	0.9
8	SBI Funds Management Pvt Ltd	0.7
9	UTI Asset Management Co Ltd	0.7
10	Sands Capital Management LLC	0.7

Source: Bloomberg

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