

March revenue loss impacts FY20 performance...

In its quarterly preview of Q4FY20, the management highlighted that revenue growth was mostly in line with internal targets until the beginning of March. However, during the initial stages of Covid-19, revenues started declining sharply in March. While the company decided to shut all its stores from March 22, 2020, various states, where Titan has key prominence, had already announced closure of malls in early March. The resultant stores shutdown led to revenue de-growth in Q4FY20. Revenue from jewellery division declined 5% YoY due to lost sales in March (recorded impressive growth of 16.5% in January-February). The watches division grew 1% YoY in Q4FY20. In the near term, the quantum of impact is difficult to gauge owing to uncertainties on lockdown and subsequent revival of discretionary spending. However, given its strong brand equity and healthy balance sheet, we expect Titan to sustain market share gains.

Challenging year for jewellery division

FY20 was challenging for Titan's jewellery division (Tanishq) due to a significant surge in gold prices (up ~31% YoY) & slowdown in discretionary spending. Despite dual headwinds, Tanishq continued to outperform the industry with sustained market share gains. In January-February, Tanishq reported a strong performance with revenue growth of ~16.5%. Diamond studded activation in January, healthy demand for wedding jewellery (~25% of revenues) aided performance of the division. However, owing to store closure in March, revenue for Q4FY20 contracted 5% YoY (vs. I-direct estimate: 8.5%). Until March, the company was well on track to achieve its revenue guidance of 11-13% in H2FY20 (10% for FY20E). However with Q4FY20 panning out muted, jewellery division reported revenue growth of ~5% in FY20E. Despite the tough scenario, Titan added highest number of Tanishq stores in a year (40) taking total store count to 327 as on FY20.

Watches segment performs better

Despite the watches segment being the most impacted category in March, the division exited Q4FY20E in positive territory (1% growth). This implies robust revenue growth in January-February. Online channel and modern retail stores continued to outperform traditional channels of sales in Q4FY20 and FY20. Aided by large institutional orders by TCS in Q1FY20 (20% revenue growth) and new product launches (especially in smart watch category) the watches division reported revenue growth of ~6% in FY20E.

Valuation & outlook

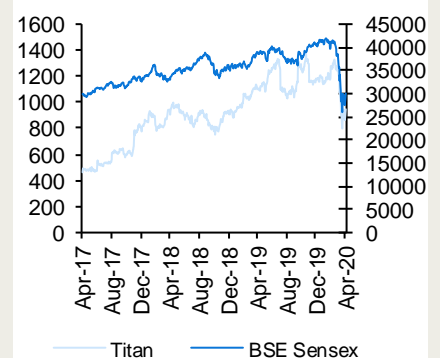
Titan has been our preferred top pick as it has consistently exhibited its ability to gain market share amid a tough industry scenario. Robust balance sheet and asset light distribution model have enabled it to outpace peers in terms of store addition. Over the longer term, we expect Titan to be a key beneficiary as India's gold market continues to strive towards regulation and standardisation. We reiterate **BUY** rating with a revised target price of ₹ 1220.



Particulars

| Particular | Amount |
|---------------------------------|------------|
| Market Capitalisation (₹ Crore) | 90,110.3 |
| Debt (FY 19) (₹Crore) | 31.8 |
| Cash (FY 19) (₹Crore) | 1,053.2 |
| EV (₹Crore) | 89,088.8 |
| 52 week H/L | 1389 / 720 |
| Equity Capital (₹Crore) | 88.8 |
| Face Value (₹) | 1 |

Price Chart



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Key Financial Summary

| (₹Crore) | FY18 | FY19 | FY20 | FY21E | FY22E | CAGR (FY19-22E) |
|---------------|----------|----------|----------|----------|----------|-----------------|
| Net Sales | 16,119.8 | 19,778.5 | 21,057.0 | 22,572.8 | 27,987.8 | 12.3 |
| EBITDA | 1,644.7 | 2,136.5 | 2,144.1 | 2,261.0 | 3,092.7 | 13.1 |
| PAT | 1,130.1 | 1,404.2 | 1,521.5 | 1,622.7 | 2,246.2 | 17.0 |
| EPS (₹) | 12.7 | 15.8 | 17.1 | 18.3 | 25.3 | |
| P/E (x) | 79.7 | 64.2 | 59.2 | 55.5 | 40.1 | |
| EV/Sales (x) | 5.6 | 4.5 | 4.2 | 3.9 | 3.2 | |
| EV/EBITDA (x) | 54.5 | 41.7 | 41.7 | 39.3 | 28.5 | |
| RoCE (%) | 29.3 | 32.4 | 27.5 | 25.0 | 29.7 | |
| RoE (%) | 22.2 | 23.2 | 21.6 | 20.0 | 23.5 | |

Source: ICICI Direct Research, Company

Exhibit 1: Profit & Loss Statement

| (Year-end March) | FY19A | FY20E | FY21E | FY22E |
|-----------------------------|----------------|----------------|----------------|----------------|
| Total operating Income | 19,778.5 | 21,057.0 | 22,572.8 | 27,987.8 |
| Growth (%) | 22.7 | 6.5 | 7.2 | 24.0 |
| Raw Material Expenses | 14,394.3 | 15,371.6 | 16,433.0 | 20,263.2 |
| Employee Expenses | 1,019.3 | 1,221.3 | 1,354.4 | 1,567.3 |
| Mfg, Admin & selling Exps | 2,228.5 | 2,319.9 | 2,524.5 | 3,064.7 |
| Total Operating Expenditure | 17,642.0 | 18,912.8 | 20,311.8 | 24,895.2 |
| EBITDA | 2,136.5 | 2,144.1 | 2,261.0 | 3,092.7 |
| Growth (%) | 29.9 | 0.4 | 5.4 | 36.8 |
| Depreciation | 162.8 | 190.2 | 219.9 | 244.1 |
| Interest | 52.5 | 71.5 | 50.0 | 40.1 |
| Other Income | 182.9 | 133.5 | 160.3 | 176.3 |
| PBT | 2,104.1 | 2,016.0 | 2,151.3 | 2,984.8 |
| Exceptional items* | 145.0 | 0.0 | 0.0 | 0.0 |
| Total Tax | 568.2 | 508.0 | 542.1 | 752.2 |
| Share of JV/Minority int | 13.3 | 13.5 | 13.5 | 13.5 |
| PAT | 1,404.2 | 1,521.5 | 1,622.7 | 2,246.2 |
| Growth (%) | 24.3 | 8.4 | 6.6 | 38.4 |
| EPS (₹) | 15.8 | 17.1 | 18.3 | 25.3 |

Source: Company, ICICI Direct Research

Exhibit 2: Cash Flow Statement

| (Year-end March) | FY19A | FY20E | FY21E | FY22E |
|-------------------------------------|----------------|---------------|----------------|----------------|
| PAT | 1,404.2 | 1,521.5 | 1,622.7 | 2,246.2 |
| Add: Depreciation | 162.8 | 190.2 | 219.9 | 244.1 |
| (Inc)/dec in Current Assets | -1,531.2 | -1,132.0 | -587.4 | -1,686.7 |
| Inc/(dec) in CL and Provisions | 1,239.9 | -53.6 | 70.3 | 894.4 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 |
| CF from operating activities | 1,275.7 | 526.1 | 1,325.5 | 1,697.9 |
| (Inc)/dec in Investments | -73.8 | -13.2 | -14.6 | -32.1 |
| (Inc)/dec in Fixed Assets | -254.3 | -246.7 | -246.0 | -247.2 |
| (Inc)/dec in CWIP | 11.6 | 0.0 | 9.5 | 6.7 |
| Others | -19.5 | 0.0 | 0.0 | 0.0 |
| CF from investing activities | -336.0 | -259.9 | -251.0 | -272.6 |
| Issue/(Buy back) of Equity | 0.0 | 0.0 | 0.0 | 0.0 |
| Inc/(dec) in loan funds | -47.2 | 33.3 | -15.0 | -12.9 |
| Others | -457.1 | -532.7 | -565.6 | -776.0 |
| CF from financing activities | -504.4 | -499.4 | -580.6 | -788.9 |
| Net Cash flow | 435.3 | -233.3 | 493.8 | 636.4 |
| Opening Cash | 617.9 | 1,053.2 | 819.9 | 1,313.8 |
| Closing Cash | 1,053.2 | 819.9 | 1,313.8 | 1,950.1 |

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet

| (Year-end March) | FY19A | FY20E | FY21E | FY22E |
|-----------------------------|----------------|----------------|----------------|----------------|
| Liabilities | | | | |
| Equity Capital | 88.8 | 88.8 | 88.8 | 88.8 |
| Reserve and Surplus | 5,968.1 | 6,956.8 | 8,013.7 | 9,477.7 |
| Total Shareholders funds | 6,056.9 | 7,045.6 | 8,102.5 | 9,566.5 |
| Total Debt | 31.8 | 65.0 | 50.0 | 37.1 |
| Deferred Tax Liability | (68.8) | (68.8) | (68.8) | (62.8) |
| Other long term liabilities | 14.1 | 14.2 | 14.4 | 14.5 |
| Total Liabilities | 6,034.0 | 7,056.0 | 8,098.1 | 9,555.3 |
| Assets | | | | |
| Gross Block | 1,784.2 | 2,030.9 | 2,276.9 | 2,524.1 |
| Less: Accu Depreciation | 364.6 | 554.7 | 774.7 | 1,018.7 |
| Net Block | 1,419.6 | 1,476.1 | 1,502.2 | 1,505.3 |
| Capital WIP | 31.8 | 31.8 | 22.2 | 15.6 |
| Goodwill on Consolidation | 123.0 | 123.0 | 123.0 | 123.0 |
| Total Fixed Assets | 1,574.4 | 1,630.9 | 1,647.5 | 1,643.9 |
| Investments | 132.4 | 145.7 | 160.3 | 192.3 |
| Inventory | 7,038.8 | 8,076.7 | 8,534.4 | 10,121.6 |
| Debtors | 420.5 | 432.7 | 463.8 | 575.1 |
| Loans and Advances | 1,286.8 | 1,368.7 | 1,467.2 | 1,455.4 |
| Other Current Assets | - | - | - | - |
| Cash | 1,053.2 | 819.9 | 1,313.8 | 1,950.1 |
| Total Current Assets | 9,799.3 | 10,698.0 | 11,779.2 | 14,102.2 |
| Creditors | 3,258.9 | 3,461.4 | 3,710.6 | 4,600.7 |
| Other Current Liabilities | 2,139.0 | 1,895.1 | 1,715.5 | 1,679.3 |
| Provisions | 196.0 | 183.7 | 184.4 | 224.9 |
| Total Current Liabilities | 5,593.9 | 5,540.2 | 5,610.5 | 6,504.9 |
| Net Current Assets | 4,205.4 | 5,157.7 | 6,168.7 | 7,597.4 |
| Others Non Current Assets | 121.8 | 121.7 | 121.7 | 121.7 |
| Application of Funds | 6,034.0 | 7,056.0 | 8,098.1 | 9,555.3 |

Source: Company, ICICI Direct Research

Exhibit 4: Key Ratios

| (Year-end March) | FY19A | FY20E | FY21E | FY22E |
|-----------------------------|-------|-------|-------|-------|
| Per share data (₹) | | | | |
| EPS | 15.8 | 17.1 | 18.3 | 25.3 |
| Cash EPS | 17.5 | 19.1 | 20.6 | 27.9 |
| BV | 68.2 | 79.4 | 91.3 | 107.8 |
| DPS | 3.8 | 5.0 | 5.5 | 7.6 |
| Cash Per Share | 11.9 | 9.2 | 14.8 | 22.0 |
| Operating Ratios | | | | |
| EBITDA Margin (%) | 10.8 | 10.2 | 10.0 | 11.1 |
| PBT Margin (%) | 10.6 | 9.6 | 9.5 | 10.7 |
| PAT Margin (%) | 7.0 | 7.2 | 7.1 | 8.0 |
| Inventory days | 129.9 | 140.0 | 138.0 | 132.0 |
| Debtor days | 7.8 | 7.5 | 7.5 | 7.5 |
| Creditor days | 60.1 | 60.0 | 60.0 | 60.0 |
| Return Ratios (%) | | | | |
| RoE | 23.2 | 21.6 | 20.0 | 23.5 |
| RoCE | 32.4 | 27.5 | 25.0 | 29.7 |
| RoIC | 40.3 | 31.8 | 30.6 | 30.3 |
| Valuation Ratios (x) | | | | |
| P/E | 64.2 | 59.2 | 55.5 | 40.1 |
| EV / EBITDA | 41.7 | 41.7 | 39.3 | 28.5 |
| EV / Net Sales | 4.5 | 4.2 | 3.9 | 3.2 |
| Market Cap / Sales | 4.6 | 4.3 | 4.0 | 3.2 |
| Price to Book Value | 14.9 | 12.8 | 11.1 | 9.4 |
| Solvency Ratios | | | | |
| Debt/EBITDA | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt / Equity | 0.0 | 0.0 | 0.0 | 0.0 |
| Current Ratio | 1.8 | 1.9 | 2.1 | 2.2 |
| Quick Ratio | 0.5 | 0.5 | 0.6 | 0.6 |

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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