

Higher gold prices subdue jewellery segment growth

In its quarterly preview of Q1FY20, the management highlighted that the performance in its jewellery division was below par, with the division reporting subdued revenue growth of ~13% YoY (vs. our estimate of 16%). A challenging consumption scenario along with a sharp spike in gold prices weighed on the performance. Despite headwinds, Tanishq continues to gain market share, signalling sustained weakness faced by other jewellery players. The watches division reported healthy revenue growth of 19% mainly on the back of execution of large institutional order from TCS. Titan has consistently displayed its ability to gain market share amid a tough industry scenario. With the long term story intact, we believe the recent stock price correction offers a good entry point.

Temporary blip owing to higher gold prices

The management in its previous conference call (Q4FY19), had highlighted that its jewellery division witnessed healthy revenue growth of ~19% in the first 40 days of Q1FY20, driven by robust growth during 'Akshaya Tritiya'. However, a sharp increase in gold prices in June (up 4% MoM, 9% YoY), hampered consumer demand, due to deferral of purchase. Revenues for the jewellery division are expected to increase ~13% YoY in Q1FY20. On the back of new launches, wedding and studded jewellery witnessed decent growth in the quarter. Tanishq launched the new Swayahm collection of both plain and studded jewellery, which was well received. The division added ~12 Tanishq stores in Q1FY20 (~34000 sq ft) and is well on track to add ~70 stores by FY20E. Tanishq, with its dominant brand positioning, has outperformed industry peers even in a challenging business scenario. For instance, despite a tepid start to FY19 (the division reported ~6% growth in Q1FY19), jewellery division ended on a high with revenue growth of ~24% in FY19. Going ahead, with the upcoming festive and wedding season, we expect the growth momentum to accelerate.

Large Institutional order drives revenue growth for watches

The watches segment continued on its healthy trajectory (19% growth in Q1FY20) driven by large institutional order by TCS and activation in both Titan and Fastrack brands. The quarter also witnessed the launch of new products with tech-enabled wearable being the new growth driver. The online channel and modern retail stores continued to outperform the traditional channels of sales.

Valuation and outlook

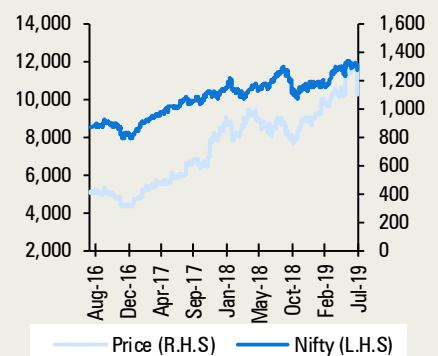
Factoring in the Q1FY20 performance, we revise our revenue and earnings estimates marginally downwards but remain positive about the long term prospects. We continue to like the company given the healthy balance sheet (32%+ RoCE & virtually debt free status) and sustained market share gains driven by healthy store additions. Titan's strong brand equity enables it to outperform industry peers and deliver consistent earnings growth amid a challenging industry scenario. We model revenue, earnings CAGR of 18.4%, 26.7%, respectively, in FY18-21E. We reiterate our **BUY** rating on the stock with a revised target price of ₹ 1250 (49.0x FY21E EPS).



Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	96,324.8
Debt (FY19) (₹ Crore)	31.8
Cash (FY19) (₹ Crore)	1,066.5
EV (₹ Crore)	95,290.1
52 week H/L	1340 / 732
Equity Capital (₹ Crore)	88.8
Face Value (₹)	1

Price Chart



Key Highlights

- The management indicated that the jewellery performance was below their expectation with YoY revenue growth of 13%
- Watches segment reported strong YoY revenue growth of 19% on back of large institutional order from TCS
- We maintain our **BUY** recommendation with a target price of ₹ 1250

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Key Financial Summary

(₹ Crore)	FY17	FY18	FY19A	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	13,260.8	16,119.8	19,778.5	23,503.9	27,736.3	18.4
EBITDA	1,155.5	1,644.7	2,136.5	2,608.9	3,217.4	22.7
PAT	711.5	1,130.1	1,404.2	1,834.0	2,255.5	26.7
EPS (₹)	8.0	12.7	15.8	20.7	25.4	
P/E (x)	135.4	85.2	68.6	52.5	42.7	
EV/Sales (x)	7.2	5.9	4.8	4.0	3.4	
EV/EBITDA (x)	82.7	58.2	44.6	36.4	29.4	
RoCE (%)	24.7	29.3	32.3	32.6	33.3	
RoE (%)	16.8	22.2	23.1	24.9	25.1	

Exhibit 1: Profit & Loss Statement

(Year-end March)	FY18	FY19A	FY20E	FY21E
Total operating Income	16,119.8	19,778.5	23,503.9	27,736.3
Growth (%)	21.6	22.7	18.8	18.0
Raw Material Expenses	11,686.2	14,394.3	17,204.9	20,192.0
Employee Expenses	885.1	1,019.3	1,222.2	1,414.6
Mfg, Admin & selling Exps	1,903.8	2,228.5	2,467.9	2,912.3
Total Operating Expenditure	14,475.1	17,642.0	20,895.0	24,518.9
EBITDA	1,644.7	2,136.5	2,608.9	3,217.4
Growth (%)	42.3	29.9	22.1	23.3
Depreciation	131.4	162.8	191.8	220.0
Interest	52.9	52.5	39.6	33.7
Other Income	88.9	182.9	186.6	194.1
PBT	1,549.2	2,104.1	2,564.1	3,157.8
Exceptional items*	16.7	145.0	0.0	0.0
Total Tax	427.9	568.2	743.6	915.8
Share of JV/Minority int	25.4	13.3	13.5	13.5
PAT	1,130.1	1,404.2	1,834.0	2,255.5
Growth (%)	58.8	24.3	30.6	23.0
EPS (₹)	12.7	15.8	20.7	25.4

Source: Company, ICICI Direct Research

Exhibit 2: Cash Flow Statement

(Year-end March)	FY18	FY19A	FY20E	FY21E
PAT	1,130.1	1,404.2	1,834.0	2,255.5
Add: Depreciation	131.4	162.8	191.8	220.0
(Inc)/dec in Current Assets	-1,443.9	-1,531.2	-1,507.1	-1,846.3
Inc/(dec) in CL and Provision	205.2	1,384.9	581.1	697.4
Others	0.0	0.0	0.0	0.0
CF from operating activities	22.8	1,420.7	1,099.8	1,326.7
(Inc)/dec in Investments	382.7	-218.8	-46.4	-35.8
(Inc)/dec in Fixed Assets	-373.5	-254.3	-248.6	-246.3
(Inc)/dec in CWIP	108.7	11.6	0.0	9.5
Others	-50.3	-19.5	0.0	0.0
CF from investing activities	67.6	-481.0	-295.0	-272.6
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	79.0	-47.2	1.3	1.3
Others	-330.4	-443.9	-532.7	-655.2
CF from financing activities	-251.4	-491.1	-531.4	-653.9
Net Cash flow	-161.0	448.6	273.4	400.2
Opening Cash	778.9	617.9	1,066.5	1,339.9
Closing Cash	617.9	1,066.5	1,339.9	1,740.1

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet

(Year-end March)	FY18	FY19A	FY20E	FY21E
Liabilities				
Equity Capital	88.8	88.8	88.8	88.8
Reserve and Surplus	5,001.1	5,981.4	7,282.6	8,882.8
Total Shareholders funds	5,089.9	6,070.2	7,371.4	8,971.6
Total Debt	79.0	31.8	33.0	34.3
Deferred Tax Liability	(32.9)	(68.8)	(68.8)	(68.8)
Other long term liabilities	(1.8)	14.1	14.2	14.4
Total Liabilities	5,134.2	6,047.2	7,349.9	8,951.5
Assets				
Gross Block	1,558.1	1,812.4	2,061.0	2,307.4
Less: Accu Depreciation	230.0	392.8	584.6	804.6
Net Block	1,328.1	1,419.6	1,476.5	1,502.8
Capital WIP	43.4	31.8	31.8	22.2
Goodwill on Consolidation	123.0	123.0	123.0	123.0
Total Fixed Assets	1,494.5	1,574.4	1,631.2	1,648.0
Investments	58.7	132.4	178.8	214.6
Inventory	5,924.8	7,038.8	8,242.5	9,726.7
Debtors	295.7	420.5	483.0	569.9
Loans and Advances	994.4	1,286.8	1,527.8	1,802.9
Other Current Assets	-	-	-	-
Cash	617.9	1,066.5	1,339.9	1,740.1
Total Current Assets	7,832.8	9,812.5	11,593.1	13,839.6
Creditors	2,489.8	3,258.9	3,863.7	4,559.4
Other Current Liabilities	1,723.2	2,139.0	2,115.4	2,108.0
Provisions	141.1	196.0	195.9	205.0
Total Current Liabilities	4,354.0	5,593.9	6,174.9	6,872.4
Net Current Assets	3,478.8	4,218.7	5,418.1	6,967.2
Others Non Current Assets	102.2	121.7	121.7	121.7
Application of Funds	5,134.2	6,047.2	7,349.9	8,951.5

Source: Company, ICICI Direct Research

Exhibit 4: Key Ratios

(Year-end March)	FY18	FY19A	FY20E	FY21E
Per share data (₹)				
EPS	12.7	15.8	20.7	25.4
Cash EPS	13.9	17.5	22.7	27.7
BV	57.3	68.4	83.0	101.1
DPS	2.6	3.8	5.0	6.4
Cash Per Share	7.0	12.0	15.1	19.6
Operating Ratios				
EBITDA Margin (%)	10.2	10.8	11.1	11.6
PBT Margin (%)	9.6	10.6	10.9	11.4
PAT Margin (%)	6.9	7.0	7.7	8.1
Inventory days	134.2	129.9	128.0	128.0
Debtor days	6.7	7.8	7.5	7.5
Creditor days	56.4	60.1	60.0	60.0
Return Ratios (%)				
RoE	22.2	23.1	24.9	25.1
RoCE	29.3	32.3	32.6	33.3
RoIC	33.7	40.3	41.1	42.5
Valuation Ratios (x)				
P/E	85.2	68.6	52.5	42.7
EV / EBITDA	58.2	44.6	36.4	29.4
EV / Net Sales	5.9	4.8	4.0	3.4
Market Cap / Sales	6.0	4.9	4.1	3.5
Price to Book Value	18.9	15.9	13.1	10.7
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	1.8	1.9	2.0
Quick Ratio	0.4	0.5	0.5	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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