

Retail Equity Research

Titan Company Limited

Consumer Discretionary

BSE CODE: 500114

NSE CODE: TITAN

Bloomberg CODE: TTAN:IN

SENSEX: 38,370

BUY

12M Investment period

Rating as per Large Cap

CMP Rs. 1,058 TARGET Rs. 1,183 RETURN 12%

(Closing:12-08-20)



KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

Sales adversely hit in Q1; Outlook positive

Titan Co. Ltd. manufactures and retails jewelry and watches. The Company also produces perfume for men and women.

- Q1FY21 revenues fell 61.6% YoY as stores remained closed in early Q1.
- Company's Golden Harvest Scheme (GHS) implemented through digital channels supported revenue this quarter contributing ~35% to the revenue (vs. ~21% contribution in Q1FY20).
- Company has extended soft loans and other grants for franchisee support in order to cushion them for short term opex costs.
- With recovery on the horizon, we reiterate our BUY rating on the stock, with a revised target price of Rs. 1,183 based on 58x FY22E EPS.

Revenues hit hard due to closure of stores

Q1FY21 consolidated revenues decline 61.6% YoY to Rs. 1,979cr as demand slumped owing to restrictions in place amidst ongoing crisis. Jewelry sales dropped 56.2% YoY to Rs. 1,824cr with segment posting EBIT loss of Rs. 68cr (vs. profit of Rs. 437cr in Q1FY20). Watch sales plummeted to Rs. 76cr, down 89.4% YoY and recorded an operating loss of Rs. 173cr (vs. Rs. 119cr profit in Q1FY20). This is due to the downturn in consumer behavior in this era of postponing special occasions and celebrations, which in turn hampered wedding purchases. On the road to recovery, the Jewelry segment witnessed about 77% of sales (in value terms) during the month of June when compared to prior year June figures. Meanwhile, the Eyewear segment saw a slow recovery amounting to just 12% in May and 23% in June.

Significant hit to margins drags down bottom-line

EBITDA loss stood at Rs. 212cr (vs. a profit of Rs. 631cr in Q1FY20) with EBITDA margin at -10.7% (vs +12.2% in Q1FY20). This quarter also saw an unprecedented miss in the sales forecast as a result of the pandemic which led to an ineffective hedge from the company side, thus recording an increase in other income. This was slightly offset by reduced advertising expenses this quarter with net loss after taxes at Rs. 291cr (vs a profit of Rs. 366cr).

Key concall highlights

- With trends picking up in the month of June-July, management expects operating leverage situation to improve from next quarter onwards along with a sharper recovery in business. Additionally, it is optimistic of the company returning to normalcy by Q4FY21.
- Going forward, company's focus to be on driving higher sales via digital channels.
- The company is also trying to boost the watch segment by promoting the spirit of gift giving in its latest ad campaign "Gift a Titan Smile".
- The company managed to gain market share in the month of June and July from both national and regional players.

Valuation

Since the outbreak of the pandemic, the perception of gold as an asset class has seen healthy traction, and the management has indicated that sentiments for plain gold jewellery and gold coins have improved on the back of surge in gold prices. With customer demand expected to rise and with improvements seen in the July month sales on the back of digital initiatives as well as gradual opening up of more of its physical stores, we expect the overall results to improve and thereby reiterate our BUY rating on the stock with a revised TP of Rs. 1,183 based on 58x FY22E EPS.

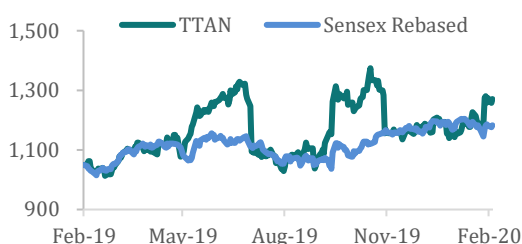
Company Data

Market Cap (cr)	Rs. 94,175
Enterprise Value (cr)	Rs. 94,850
Outstanding Shares (cr)	89.0
Free Float	47.0%
Dividend Yield	0.4%
52 week high	Rs. 1,390
52 week low	Rs. 720
6m average volume (cr)	0.01
Beta	0.9
Face value	Rs. 1

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	52.9	52.9	52.9
FII's	18.3	17.7	17.6
MFs/Insti	9.3	11.1	11.2
Public	17.3	15.8	15.9
Others	2.3	2.4	2.5
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	24.9%	-16.6%	-0.9%
Absolute Sensex	22.3%	-7.7%	2.1%
Relative Return*	2.6%	-8.9%	-3.0%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	21,052	17,319	23,337
Growth (%)	6.4	(17.7)	34.7
EBITDA	2,620	1,895	2,922
EBITDA Margin (%)	12.4	10.9	12.5
Adj. PAT	1,501	875	1,811
Growth (%)	6.9	(41.7)	106.9
Adj. EPS	17.0	9.9	20.4
Growth (%)	7.5	(42.1)	106.9
P/E	54.5	107.4	51.9
P/B	12.3	13.1	10.7
EV/EBITDA	32.4	50.1	32.5
ROE (%)	22.5	12.2	20.6
D/E	0.5	0.5	0.4

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Revenue	1,979	5,151	(61.6)	4,712	(58.0)
EBITDA	(212)	631	<i>n.m.</i>	654	<i>n.m.</i>
EBITDA margins	(10.7)	12.2	<i>n.m.</i>	13.9	<i>n.m.</i>
Depreciation	93	76	22.4	102	(8.9)
EBIT	(305)	555	<i>n.m.</i>	552	<i>n.m.</i>
Interest	52	34	53.6	43	21.7
Other Income	-	-	-	-	-
Exceptional Items	-	-	-	-	-
PBT	(361)	520	<i>n.m.</i>	509	<i>n.m.</i>
Tax	(64)	156	<i>n.m.</i>	166	<i>n.m.</i>
Share of profit from Associate	(4)	(1)	(334.8)	(0)	(4,344.4)
Minority Interest	(6)	(2)	(144.9)	(3)	(88.7)
Reported PAT	(291)	366	<i>n.m.</i>	346	<i>n.m.</i>
Adjustments	-	-	-	-	-
Adj. PAT	(291)	366	<i>n.m.</i>	346	<i>n.m.</i>
No. of shares	88.7	88.9	(0.2)	88.3	0.5
Adj. EPS (Rs.)	(3.3)	4.1	<i>n.m.</i>	3.9	<i>n.m.</i>

Segment-wise performance

Rs. cr	Q1FY21			Q1FY20			YoY Growth %		
	Revenue	EBIT	% Margin	Revenue	EBIT	% Margin	Revenue	EBIT	Margin
Watches	76	(173)	(227.6)	716	119	16.6	(89.4)	<i>n.m.</i>	<i>n.m.</i>
Jewellery	1,824	(68)	(3.7)	4,164	437	10.5	(56.2)	<i>n.m.</i>	<i>n.m.</i>
Eyewear	30	(31)	(103.3)	149	(11)	(7.7)	(79.8)	<i>n.m.</i>	<i>n.m.</i>
Others	81	(12)	(14.8)	131	(4)	(2.7)	(38.0)	<i>n.m.</i>	<i>n.m.</i>
Corporate (unallocated)	(32)	(21)	<i>n.m.</i>	(9)	13	<i>n.m.</i>	275.1	<i>n.m.</i>	<i>n.m.</i>
Total	1,979	(305)	(15.4)	5,151	555	10.8	(61.6)	<i>n.m.</i>	<i>n.m.</i>

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	25,889	30,527	17,319	23,337	(33.1)	(23.6)
EBITDA	3,095	3,695	1,895	2,922	(38.8)	(20.9)
Margins (%)	12.0	12.1	10.9	12.5	(110bps)	40bps
Adj. PAT	1,968	2,408	875	1,811	(55.5)	(24.8)
Adj. EPS	22.2	27.1	9.9	20.4	(55.5)	(24.8)



PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	16,156	19,779	21,052	17,319	23,337
% change	23.3	22.4	6.4	(17.7)	34.7
EBITDA	1,734	2,174	2,620	1,895	2,922
% change	41.4	25.4	20.5	(27.7)	54.2
Depreciation	131	163	348	600	516
EBIT	1,602	2,012	2,272	1,294	2,406
Interest	53	53	166	149	46
Other Income	(17)	(2)	(4)	(4)	0
PBT	1,533	1,957	2,102	1,141	2,361
% change	57.2	27.7	7.4	(45.7)	106.9
Tax	428	568	609	287	594
Tax Rate (%)	27.9	29.0	29.0	25.2	25.2
Reported PAT	1,130	1,404	1,501	875	1,811
Adj*	17	-	-	-	-
Adj PAT	1,147	1,404	1,501	875	1,811
% change	40.8	22.4	6.9	(41.7)	106.9
No. of shares (cr)	88.8	88.8	88.3	88.8	88.8
Adj EPS (Rs.)	12.9	15.8	17.0	9.9	20.4
% change	40.8	22.4	7.5	(42.1)	106.9
DPS (Rs.)	3.8	5.0	4.0	2.3	4.8
CEPS (Rs.)	14.4	17.7	21.0	16.6	26.2

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	618	1,066	381	2,452	2,400
Accounts Receivable	296	420	312	346	490
Inventories	5,925	7,039	8,103	6,562	8,883
Other Cur. Assets	763	1,062	1,325	1,233	1,381
Investments	57	63	68	73	73
Gross Fixed Assets	1,316	1,516	1,861	2,108	2,424
Net Fixed Assets	1,102	1,182	2,220	1,855	1,655
CWIP	43	29	12	10	9
Intangible Assets	349	363	396	409	409
Def. Tax (Net)	36	74	159	72	143
Other Assets	336	416	574	578	578
Total Assets	9,524	11,715	13,550	13,591	16,022
Current Liabilities	2,624	3,109	3,336	2,865	3,731
Provisions	116	131	166	183	183
Debt Funds	1,692	2,386	3,368	3,368	3,368
Other Liabilities	3	5	6	3	6
Equity Capital	89	89	89	89	89
Reserves & Surplus	5,001	5,981	6,580	7,100	8,706
Shareholder's Fund	5,090	6,070	6,669	7,189	8,795
Minority Interest	(2)	14	4	(17)	(61)
Total Liabilities	9,524	11,715	13,550	13,591	16,022
BVPS (Rs.)	57	68	76	81	99

CASH FLOW

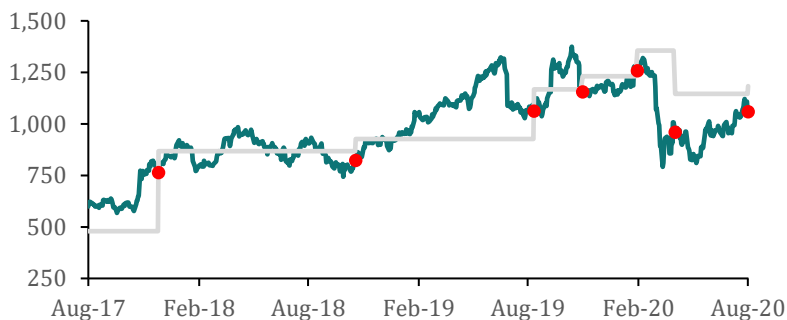
Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	1,262	1,567	1,849	1,476	2,326
Non-cash adj.	(321)	903	(939)	(226)	374
Changes in W.C	(991)	(1,227)	(1,258)	1,428	(2,232)
C.F. Operation	(51)	1,243	(347)	2,677	468
Capital exp.	(299)	(245)	(346)	(247)	(315)
Change in inv.	412	-	(39)	-	-
Other invest.CF	(16)	(553)	619	(4)	-
C.F - Investment	96	(798)	235	(252)	(315)
Issue of equity	-	-	-	-	-
Issue/repay debt	79	(39)	693	-	-
Dividends paid	(277)	(397)	(536)	(355)	(204)
Other finance.CF	(54)	(53)	(400)	-	-
C.F - Finance	(252)	(489)	(242)	(355)	(204)
Chg. in cash	(207)	(44)	(354)	2,071	(52)
Closing cash	618	1,066	381	2,452	2,400

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	10.7	11.0	12.4	10.9	12.5
EBIT margin (%)	9.9	10.2	10.8	7.5	10.3
Net profit mgn.(%)	7.0	7.1	7.1	5.1	7.8
ROE (%)	22.2	23.1	22.5	12.2	20.6
ROCE (%)	23.6	23.7	22.6	12.3	19.9
W.C & Liquidity					
Receivables (days)	6.7	7.8	5.4	7.3	7.7
Inventory (days)	184.5	178.5	195.2	193.5	191.6
Payables (days)	27.3	23.0	14.4	15.3	16.2
Current ratio (x)	1.8	1.8	1.8	2.1	2.2
Quick ratio (x)	0.2	0.3	0.1	0.6	0.5
Turnover & Leverage					
Gross asset T.O (x)	2.9	14.0	12.5	8.7	10.3
Total asset T.O (x)	1.8	1.9	1.7	1.3	1.6
Int. coverage ratio (x)	30.3	38.3	13.7	8.7	52.5
Adj. debt/equity (x)	0.3	0.4	0.5	0.5	0.4
Valuation					
EV/Sales (x)	5.2	5.1	4.0	5.5	4.1
EV/EBITDA (x)	48.4	46.5	32.4	50.1	32.5
P/E (x)	72.2	71.1	54.5	107.4	51.9
P/BV (x)	16.3	16.4	12.3	13.1	10.7



Recommendation Summary



Dates	Rating	Target
12-Jun-17	REDUCE	480
6-Dec-17	ACCUMULATE	867
30-Oct-18	ACCUMULATE	927
22-Aug-19	ACCUMULATE	1,167
11-Nov-19	HOLD	1,232
10-Feb-20	HOLD	1,356
13-Apr-20	BUY	1,146
13-Aug-20	BUY	1,183

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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