

TITAN COMPANY Ltd.

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Initiating Coverage Report

BUY

Company Overview-

Titan Company Limited (earlier known as Titan Industries Limited) is an Indian consumer goods company that mainly manufactures fashion accessories such as watches, jewellery and eyewear. Part of the Tata Group, the company is headquartered in Electronic City, Bangalore.

It commenced operations in 1984 under the name Titan Watches Limited. In 1994, Titan diversified into jewellery with Tanishq and subsequently into eyewear with Titan Eyeplus. In 2013, Titan entered the fragrances segment with the brand Skinn and later that year, it ventured into the helmets category under its brand Fastrack. Also, Titan announced recently about launching a series of affordable smartwatches under its brands like Sonata and Fastrack soon.

Current Price	832.5
52 Week Range	1,006/731
Target Price	1062
Upside	0.11
Key Share Data	
Market Cap (Rs.bn)	852.18
Market Cap (US\$ mn)	11975.63
No of o/s shares (mn)	887
Face Value	1
Monthly	
(BSE+NSE) Nos (in'000)	2846
BSE Code	500114
NSE Code	TITAN
Bloomberg	TTAN IN

Annual Reports-

Year	Net Sales	% growth	EBIDTA	OPM %	PAT	%growth	EPS	PE(x)	RoE	RoCE
FY17	132608.3	17.6	11555	8.7	7851	16.4	8.8	108	0.19	0.25
FY18	161197.7	21.6	16446.9	10.2	11420.9	45.5	12.9	74.2	0.22	0.29
FY19	196159.3	21.7	20433.4	10.4	13668	19.7	15.4	62	0.23	0.31
FY20E	233720.5	19.1	26112.6	11.2	17582.4	28.6	19.8	48.2	0.25	0.34
FY21E	278088.5	19	32620.4	11.7	22134	25.9	24.9	38.3	0.26	0.35

Current Trends-

Indian weddings to keep jewellery demand stable with ~6% CAGR: On an average it is estimated ~8-10mn weddings happen in India with an average spend of Rs. ~2lac on Bridal Jewellery. Bridal Jewellery accounts for 55% of domestic jewelry sales (as per world gold council report). Indian domestic bridal jewelry currently at Rs. 2,722bn is expected to grow to Rs.3,570bn by FY23. Further, by FY23 the Industry expects

- i) 1.4% CAGR in gold volume
- ii) 3% CAGR in gold realization (last 33 years CAGR has been at 4.09% in USD)
- iii) 5.6% CAGR in domestic jewelry. Titan will increase its wedding jewelry share to 50% by FY23 from 35% (of entire Plain Jewellery at 70%) in FY18.

Tanishq to double its market share to 10% by FY23: This will be achieved through-

- i) narrowing of making charges in unorganized and organized sector; due to compliance in Hallmarking and GST and
- ii) Increasing brand presence; Tanishq has guided to open 40-45 stores in FY19, with a target to reach 400 stores in 250 towns by FY23 from 253 stores in 150 towns currently (adding ~150 stores in 100 new towns over FY18-23). This would give ~8% CAGR in stores over FY18-FY23 (assuming new store average area per store ~3972sq ft).

Brand Value: In the past year, helped Titan with a strong brand name and a strong backing by the “Tata Group” and cement its position as a strong trusted player in the market.

Gold harvest scheme (GHS): The scheme was introduced in a new avatar (10 instalments +0.75 free) v/s (10installments+1free) earlier and contributes 17% in FY18 V/S 14% in FY17 of total sales. Opportunity is to go up to 25% of sales. It would help to increase ticket size and wallet share.

Gold Exchange Scheme: Gold exchange scheme currently at 40% in FY18 targets 50% by FY23. It helps in

- i) Improving working capital efficiency given the up-selling opportunity (20% SSG in FY18)
- ii) de-risking its gold sourcing needs.

Rs. 40 bn market of high value Studded Jewellery to give healthy growth: Currently as of FY18 it contributes 30% which is expected to contribute 50% in FY23, giving ~11% CAGR over FY18-FY23. The caution in this business is, introduction of synthetic diamond which is not factored in as of now.

Reducing ticket size in plain jewelry to support sales growth and increase market share:

Women want something which is accessible. The jewelry would become more of an accessory going forward hence price point for daily wear is important. Mia and Cartalane are already into low ticket size jewelry with an average price point of Rs. 20,000. Cartalane will break even in FY19, contributing +2% in FY18 and other brands like Mia, Zoya and Aveer to add Rs. 17500mn by FY23.

Rs.70bn opportunity in prescription eyewear category and the overall target to achieve 10mn customers by FY23 (2.4mn in FY18) with 60mn potential customers: Improvement in perception of high value eyewear via introduction of products at lower priced points (Rs. 1000-2000 range). Strategy of structured expansion, in-house frame manufacturing, economies of scale shall benefit margins in medium term.

Rs. 85bn watch market, Titan has ~25% market share overall and ~65% in organized market, overall market to grow at ~7% CAGR by FY21: Titan manufactures 15mn watches every year. Introduction of smart watches that compete with global brands in lower segments to capture mass population with Fastrack and sonata brand is key for the segment to grow at 11% CAGR by FY21. With huge market share and 10% sales from a single e-commerce platform, Amazon indicates a larger presence and huge demand for the brand.

Valuation: Titan being one of its kind branded players in the jewellery industry will enjoy a brand premium. The trust and the loyalty attached with this brand has enhanced post the issues of fraud cases by certain large jewelers.

Financials and Valuation:

Income Statement							(INR m)
Y/E March	2015	2016	2017	2018	2019E	2020E	2021E
Net Sales	119,095	112,759	132,608	161,198	197,825	236,513	284,244
Change (%)	9.1	-5.3	17.6	21.6	22.7	19.6	20.2
Gross Profit	31,562	30,949	37,534	44,336	54,044	66,437	80,926
Margin (%)	26.5	27.4	28.3	27.5	27.3	28.1	28.5
Other expenditure	19,962	21,601	25,979	27,889	32,957	40,038	47,808
EBITDA	11,599	9,347	11,555	16,447	21,087	26,399	33,118
Change (%)	10.6	-19.4	23.6	42.3	28.2	25.2	25.5
Margin (%)	9.7	8.3	8.7	10.2	10.7	11.2	11.7
Depreciation	874	982	1,105	1,314	1,647	1,886	2,123
Int. and Fin. Charges	807	424	377	529	557	579	688

Other Income - Recurring	643	739	705	889	1,573	1,356	1,539
Profit before Taxes	10,562	8,681	10,777	15,492	20,456	25,290	31,847
Change (%)	4	-17.8	24.1	43.7	32	23.6	25.9
Tax	2,410	1,710	3,021	4,500	5,932	6,828	8,917
Deferred Tax	82	-206	261	221	0	0	0
Tax Rate (%)	22	22.1	25.6	27.6	29	27	28
Profit after Taxes	8,233	6,765	8,018	11,213	14,524	18,462	22,930
Change (%)	11.1	-17.8	18.5	39.9	29.5	27.1	24.2
Margin (%)	6.9	6	6	7	7.3	7.8	8.1
Extraordinary income	0	0	-1,027	-167	0	0	0
Reported PAT	8,233	6,765	6,991	11,047	14,524	18,462	22,930
Balance Sheet							(INR m)
Y/E March	2015	2016	2017	2018	2019E	2020E	2021E
Share Capital	888	888	888	888	888	888	888
Reserves	32,637	34,178	41,700	49,993	50,254	58,562	67,733
Net Worth	33,525	35,066	42,587	50,881	51,142	59,449	68,621
Loans	998	1,131	0	790	500	250	250
Deferred Tax	64	131	-33	-329	-329	-329	-329
Capital Employed	34,587	36,327	42,555	51,342	51,313	59,370	68,542
Gross Block	11,824	13,559	9,858	13,384	15,509	17,584	19,659
Less: Accum. Depn.	5,103	6,054	1,220	2,137	3,784	5,670	7,793
Net Fixed Assets	6,720	7,506	8,638	11,247	11,725	11,914	11,866
Intangibles	102	200	3,337	3,495	3,495	3,495	3,495

Capital WIP	552	1,067	1,432	430	430	430	430
Investments	290	26	3,937	16	16	16	16
Curr. Assets, L&A	50,932	54,624	66,698	79,694	94,388	107,904	129,165
Inventory	40,493	44,472	49,257	59,248	67,861	78,448	92,889
Account Receivables	1,897	1,925	2,076	2,957	3,144	4,212	5,062
Cash and Bank Balance	2,138	1,442	8,159	6,523	10,773	10,742	14,537
Others	6,403	6,785	7,205	10,965	12,610	14,502	16,677
Curr. Liab. and Prov.	24,010	27,095	41,488	43,540	58,740	64,388	76,429
Current Liabilities	22,943	25,794	40,056	41,909	57,330	62,978	75,018
Provisions	1,067	1,302	1,433	1,631	1,411	1,411	1,411
Net Current Assets	26,922	27,529	25,210	36,154	35,647	43,515	52,736
Application of Funds	34,587	36,327	42,555	51,342	51,313	59,370	68,543

Ratios	-1,140						
Y/E March	2015	2016	2017	2018	2019E	2020E	2021E
Basic (INR)							
EPS	9.3	7.6	9	12.6	16.4	20.8	25.8
Cash EPS	10.3	8.7	10.2	14	18.2	22.9	28.2
BV/Share	37.8	39.5	48	57.3	57.6	67	77.3
DPS	2.8	5.4	3.6	4.6	8.2	11.4	15.5
Payout %	29.8	70.3	39.7	36.3	50	55	60
Valuation (x)							
P/E	106.9	130	109.7	78.5	60.6	47.7	38.4

Cash P/E	96.6	114	96.9	70.7	54.4	43.2	35.1
EV/Sales	7.4	7.8	6.5	5.4	4.4	3.7	3
EV/EBITDA	75.7	94.1	75.1	53.1	41.2	32.9	26.1
P/BV	26.2	25.1	20.7	17.3	17.2	14.8	12.8
Dividend Yield (%)	0.3	0.5	0.4	0.5	0.8	1.2	1.6
Return Ratios (%)							
RoE	28	19.7	20.6	24	28.5	33.4	35.8
RoCE	26.1	20	21	24.7	29.1	34.1	36.6
RoIC	30.2	19.9	24.8	29.8	32.7	40.5	43.9
Working Capital Ratios							
Debtor (Days)	6	6	6	7	6	7	7
Asset Turnover (x)	3.4	3.1	3.1	3.1	3.9	4	4.1
Leverage Ratio							
Debt/Equity (x)	0	0	0	0	0	0	0
Cash Flow Statement							(INR m)
Y/E March	2015	2016	2017	2018	2019E	2020E	2021E
OP/(loss) before Tax	10,489	8,681	9,733	15,298	20,456	25,290	31,847
Int./Div. Received	77	-95	31	-81	-1,573	-1,356	-1,539
Depreciation & Amort.	896	982	1,105	1,314	1,647	1,886	2,123
Interest Paid	165	-152	-136	-113	557	579	688
Direct Taxes Paid	2,449	2,025	2,768	4,561	5,932	6,828	8,917
Incr in WC	4,152	1,631	-9,158	12,365	-4,756	7,899	5,425

CF from Operations	5,026	5,761	17,123	-507	19,911	11,671	18,775
Incr in FA	2,070	2,522	2,511	2,993	2,125	2,075	2,075
Free Cash Flow	2,956	3,239	14,613	-3,500	17,786	9,596	16,700
Investments	-2	-55	3,254	-4,115	0	0	0
Others	-301	-1,058	2,986	-273	8,675	877	1,141
CF from Invest.	-1,767	-1,409	-8,750	1,395	-10,800	-2,952	-3,216
Incr in Debt	0	0	0	0	-290	-250	0
Dividend Paid	1,852	3,944	36	2,774	4,014	7,922	11,077
Others	8,194	1,104	1,621	-249	557	579	688
CF from Fin. Activity	-10,047	-5,048	-1,656	-2,524	-4,861	-8,751	-11,764
Incr/Decr of Cash	-6,787	-696	6,717	-1,637	4,250	-31	3,795
Add: Opening Balance	8,926	2,138	1,442	8,159	6,523	10,773	10,742
Closing Balance	2,138	1,442	8,159	6,523	10,773	10,742	14,537

Competitive analysis:

Highest network reach among organized retailers presence

Jewelers	Presence	North	East	West	South	Presence in cities
Tanishq	National	78.0	46	59	71	156
PCJ	North	65.0	14	10	4	77
Kalyan	South	13.0	4	11	58	71
Joy Allukas	South	5.0	0	7	59	58
Malabar Gold	South	5.0	1	7	86	64
GRT	South	0.0	0	0	46	22

Jos Allukas	South	0.0	0	0	38	30
Thangmayil	South	0.0	0	0	32	16
Khazana	South	0.0	0	0	47	31
TBZ	West	1.0	7	25	4	26
PN Gadgil	West	0.0	0	24	1	16
PN Jewellers	West	0.0	0	22	0	13
Senco	East	9.0	74	4	4	48

Return & Margin Profile:

ROE %	FY 16	FY 17	FY1 8	ROCE %	FY 16	FY1 7	FY1 8	Margins %	FY1 6	FY1 7	FY18
Titan	19.24	18.55	22.44	Titan	23.11	24.69	29.28	Titan	9.28	9.50	11.14
PCJ	18.15	14.91	15.56	PCJ	25.98	22.44	23.43	PCJ	11.20	10.74	11.60
Thangmayil	7.91	9.74	14.38	Thangmayil	12.68	14.55	15.38	Thangmayil	3.61	3.82	4.41
TBZ	-5.09	3.69	4.42	TBZ	3.65	6.69	7.34	TBZ	2.99	4.69	4.83
GRT	30.08	24.57	NA	GRT	7.91	9.76	NA	GRT	4.10	4.37	NA
Joy Allukas	11.59	12.53	15.3	Joy Allukas	14.12	16.11	19.67	Joy Allukas	4.78	4.98	5.25
Kalyan	5.07	-3.51	5.42	Kalyan	10.83	6.26	11.05	Kalyan	5.25	3.63	6.75

Industry and opportunity:

India's gold demand to remain robust between 850–950 ton by 2020: India's per capita income is one of the most significant factors underpinning gold demand and will increase over the coming years. The IMF expects growth of 35% from 2015 to 2020. More generally, India's middle class which is at 15-20% of total population at 200mn-250mn people whose average income ranges between Rs 2.4lac-7.2lac pa, will grow to a population of +500mn people by 2025 (as per world gold council report).

Government intervention: Industry is going through regulatory changes since 2013 which has been favorable to organized players like Titan. Events in Gold sector like ban on "gold on lease", imposition of the 80:20 import rule, mandatory PAN-Card for 2lac+ transactions, Demonetization and GST. Such events are pushing consumers to purchase more from organized now and jewelers in the unorganized segment have started to see a credit squeeze in the market which is also a sign of shift to organized sector.

Mandatory hallmarking of jewellery with BIS Act, 2016: Recent developments mark further improvements, with the approval of a new BIS Act 2016. Its primary aim is to make the hallmarking of gold jewellery mandatory and allow the government to enforce it. This could largely wipe out the malpractice of gold jewellery and ornaments of inferior purity being sold as 22-carat.

India is one of the largest jewellery consuming nations in the world: In 2015, India bought 663t of gold jewellery, second to China, but comfortably ahead of the US, Europe and the Middle East combined. Over recent years, it has consistently been one of the world's largest gold jewellery consuming countries.

Jewellery (82%+ of Revenues) still a big opportunity ahead: The jewellery business recorded its best-ever performance since inception with ~28% CAGR over FY04-FY18 and highest ever margin of 11.14% in FY18. Driven by strong same store sales growth of around 20%, the total revenues rose by 25% for the second consecutive year at Rs.1,31,255 Mn. outperforming both the national and local/regional competition. Management guided for 20% sales growth in FY19 and 10% market share by FY2023 (implying its 20% revenue CAGR).

2.5x in 5 years: the company has stated ambition to grow at a CAGR of 20-25% over next 4-5 years with focus on following factors: 1) Wedding currently 35% of total Plain Jewellery business (which is 70% of FY18 Revenue) estimated to be at 50% by FY23 2) High Value Diamond Studded Jewellery currently 30% of studded business (which is 30% of FY18 Revenues) estimated to be at 50% by FY23. 3) Gold Harvest Scheme expansion 4) Increase in Market at ~10% 5) Network Expansion

Contribution from Golden EXCHANGE scheme to increase from 30% in FY18 to 40% in FY23: Golden exchange programme helping it to up-sell. Share of exchange gold has gone up from 20% (three years prior) to 30% in FY18 as cash shortage post-demonetization forced customers to exchange old jewellery to buy new jewellery.

Wedding opportunity Size 150,000crs: Contributes ~35% of Jewellery Revenues in FY18 (which was less than 5% of Tanishq Revenues four years back) since Tanishq was a) at premium to others b) earlier it was not considered as a set of serious wedding purchase c) Family Jewelers dominated for every linguistic community. The company has identified 18 linguistic communities contributing to 80-90% of wedding purchases and have built merchandise as per their preferences under "Rivaah", targeted by emotional connect between Father and Daughter.

Rs. 40bn market of studded jewelry to grow at 11% CAGR by FY23: The market grew at 9-10% CAGR over FY13-18 which is expected to remain same, as the prices has been stable since FY17. Given that the wedding segment is extremely competitive and fraught with consumer discounts, we expect Titan's pricing premium to reduce over peers with time.

Cartalane & other subsidiary brands: Cartalane at Rs.2.9bn in FY18 (+2% sales to total jewellery), sets a target to breakeven in FY19 supported by accelerated expansion with high level of marketing investments in local connect of marketing. Targets Sales of Rs 17.5 bn, EBIT of 5%, ROCE of 20% with 100 stores by FY2023.

Subsidiary brands going ahead to contribute ~9% in FY20 at ~Rs. 17bn, where Mia will be at Rs 7.5 bn ; Aveer (brand for men's jewellery) Rs 5 bn and Zoya (High value diamond jewellery) Rs 5 bn

Eyewear (3% FY18 Revenues) to grow at 9% CAGR by FY21: The eyewear business maintained a stable growth rate of 8%. Titan EyePlus continued to do well, while the sunglasses business faced challenges due to GST disruption.

Titan's eyewear business has 2 parts, prescription eyewear & sunglasses. In prescription business profitability is always a concern due to disruptive offers by its peers like lenskart. Eyewear focus is on customer acquisition and breaking the high price perception. In Q2FY19 quarter Titan launched its new great value products where the company is manufacturing low priced points products in the range of Rs. 1000-Rs. 2000. Management highlighted this exercise will not lead to margin dilution at gross margin level ; however PBT margin will get impacted in FY19 due to disproportionate ad spends. To acquire customer base of 10mn Titan is taking initiatives such as;

Spend on marketing to improve brand presence and acquire new clients.

SOURCES

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