

Titan Company | BUY

Remarkable resilience and strength

Titan's businesses again displayed some remarkable resilience and strength during Sep-Q. Jewellery (ex-bullion) performance was strong at 19%, with a good uplift in margin (back to 14.1%), notwithstanding all the noise around the need to hike promotions to drive sales. Management re-iterated its margin guidance of 12-13%. There are some bits of unevenness in terms of festival calendar so some sales could have been phased between 2Q and 3Q but underlying momentum for the category still seems to be reasonably buoyant. Watches grew very well but margin did not adequately reflect leverage from the scale achieved (crossed INR10bn per quarter for the first time) – likely due to margin-drag from the growing share of Wearables – now at c.16%. We expect Titan to continue commanding a premium valuation, more so given scarcity of 'growth-businesses' in the space at this point. Maintain BUY.

- Strong all-round show in Jewellery, but relatively lower margin in Watches drove a miss in earnings:** Titan's Sep-Q sales grew 21.7% to INR99bn (standalone) led by strong growth of 19% in Jewellery and even stronger 31.7% growth in Watches while Eyewear grew relatively slower at 12.6%. EBITDA and net profit grew 9.8% and 9.7% to INR13.6bn and INR9.4bn - these were c.3% below our forecasts with the miss attributable to lower-than-expected Watches margin which was tad down yoy despite a very strong growth.
- Impressive momentum continued in Jewellery; margin back at higher levels now:** Ex of bullion, Jewellery sales grew 19%. India business grew better at 21% with both Buyers and Average Bill Value growing in double-digit; exports decline of 33% (lower inventory transfers to overseas subs) dragged overall growth lower by c.200bps. Studded (100bps improvement in share to 33%), high-value and wedding segments all grew strongly during 2Q. There was some benefit of calendar-shift this year that led to the inauspicious days being moved to Oct vs Sep earlier – this helped 2Q growth but we reckon there could have been some offset as well given that festive-dates are occurring much later this year. Interestingly, store-level growth was even higher at 27% - reported growth was impacted by discounting (-1%), some accounting adjustments (-2-3%) and lower primary sales to franchisees (-3%) given that festive dates fall much later (mid-Nov) this year. On margin front, the Street was expecting the hits seen in recent periods to continue with the assumption that there is a need nowadays to spend more aggressively on promotions to drive growth. Titan, however, managed to lift its margin back to the earlier higher trajectory – at 14.1% in 2Q. In terms of QoQ movement, the 3ppt better margin between 2Q's 14.1% and 1Q's 11% can be explained to the 7ppt better studded mix (c.200bps margin benefit) and the balance being the hit taken in 1Q from the higher caratage offered against old gold being exchanged. On YoY basis, the compression in Jewellery margin is due to c.200bps one-off inventory-related gains in base quarter.
- Watches margin was below expectation; Eyewear inline but relatively weaker:** 1) Watches segment grew 31.7% - Wearables more than doubled (+131%) but Analog growth was strong as well at 22%. Watches EBIT margin of 14.7%, though, was still marginally lower yoy despite the strong topline – likely due to gross margin dilution from Wearables and higher promotions-related costs given the nature of that segment at present. 2) Eyewear grew 12.6% - mostly volume-led while pricing was flattish. Margin was weak – down 187bps yoy to 14.9%.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	3,705
Upside/(Downside)	13.2%
Previous Price Target	3,085
Change	20.1%

Key Data – TTAN IN

Current Market Price	INR3,273
Market cap (bn)	INR2,907.1/US\$34.9
Free Float	41%
Shares in issue (mn)	890.0
Diluted share (mn)	890.0
3-mon avg daily val (mn)	INR2,923.9/US\$35.1
52-week range	3,352/2,269
Sensex/Nifty	64,364/19,231
INR/US\$	83.3

Price Performance

%	1M	6M	12M
Absolute	2.4	23.4	18.5
Relative*	5.0	17.0	12.2

* To the BSE Sensex

Financial Summary

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	274,170	379,240	458,377	529,156	610,033
Sales Growth (%)	36.5%	38.3%	20.9%	15.4%	15.3%
EBITDA	33,410	48,790	56,051	67,633	79,164
EBITDA Margin (%)	12.2%	12.9%	12.2%	12.8%	13.0%
Adjusted Net Profit	22,139	32,470	37,855	46,374	55,080
Diluted EPS (INR)	24.9	36.5	42.5	52.1	61.9
Diluted EPS Growth (%)	127.5%	46.7%	16.6%	22.5%	18.8%
ROIC (%)	36.4%	36.0%	30.7%	31.0%	34.2%
ROE (%)	26.4%	30.7%	28.5%	28.3%	27.7%
P/E (x)	131.6	89.7	77.0	62.8	52.9
P/B (x)	31.3	24.6	19.8	16.1	13.4
EV/EBITDA (x)	86.8	59.4	51.9	42.6	36.1
Dividend Yield (%)	0.2%	0.3%	0.5%	0.6%	0.9%

Source: Company data, JM Financial. Note: Valuations as of 03/Nov/2023

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. 2QFY24 Segment Financials: Very strong revenue growth led by Jewellery, Watches; however, margins disappointed again

	STANDALONE				CONSOLIDATED			
	2QFY24	2QFY23	YoY chg	2QFY24E	% var	2QFY24	2QFY23	YoY chg
Segment Revenue								
Watches	10,920	8,290	31.7%	10,943	-0.2%	10,920	8,300	31.6%
Jewellery	103,300	76,850	34.4%	85,688	20.6%	110,810	79,970	38.6%
Eyewear	1,880	1,670	12.6%	1,870	0.5%	1,890	1,670	13.2%
Others	1,720	1,090	57.8%	1,363	26.2%	2,910	2,300	26.5%
Total Revenue	117,820	87,900	34.0%	99,863	18.0%	126,530	92,240	37.2%
Segment EBIT								
Watches	1,600	1,230	30.1%	1,862	-14.1%	1,600	1,220	31.1%
Jewellery	12,060	11,030	9.3%	12,082	-0.2%	12,170	10,880	11.9%
Eyewear	280	280	0.0%	279	0.5%	250	280	-10.7%
Others	-240	-180	NM	-204	NM	-20	-20	0.0%
Adjusted Segment EBIT	13,700	12,360	10.8%	14,018	-2.3%	14,000	12,360	13.3%
% margin	11.6%	14.1%	-243 bps	14.0%	-241 bps	11.1%	13.4%	-234 bps
Unallocable Exp – Net	1,250	910	37.4%	1,100	13.6%	1,320	950	38.9%
Net Finance Costs	-160	-100	60.0%	-130	23.1%	160	-10	-1700.0%
PBT	12,610	11,550	9.2%	13,048	-3.4%	12,520	11,420	9.6%
% margin	10.7%	13.1%	-244 bps	13.1%	-236 bps	9.9%	12.4%	-249 bps
PAT	9,400	8,570	9.7%	9,721	-3.3%	9,150	8,310	10.1%
Segment Margin %								
Watches	14.7%	14.8%	-19 bps	17.0%	-236 bps	14.7%	14.7%	-5 bps
Jewellery	11.7%	14.4%	-268 bps	14.1%	-243 bps	11.0%	13.6%	-262 bps
Eyewear	14.9%	16.8%	-187 bps	14.9%	-1 bps	13.2%	16.8%	-354 bps
Others	-14.0%	-16.5%	256 bps	-15.0%	105 bps	-0.7%	-0.9%	18 bps
Total Segment	11.6%	14.1%	-243 bps	14.0%	-241 bps	11.1%	13.4%	-234 bps

Source: Company, JM Financial

14.1% excl bullion

Exhibit 2. 2Q & 1HFY24 result snapshot (Standalone)

STANDALONE	(INR mn)					
	2QFY24	2QFY23	YoY chg	1HFY24	1HFY23	YoY chg
Net Sales	99,030	81,340	21.7%	200,060	166,270	20.3%
Other Operating Income	17,570	5,960	194.8%	27,990	10,640	163.1%
Total Revenue	116,600	87,300	33.6%	228,050	176,910	28.9%
Gross Profit	26,100	23,170	12.6%	49,500	45,010	10.0%
Gross Profit Margin %	26.4%	28.5%	-213 bps	24.7%	27.1%	-233 bps
Staff Cost	3,740	3,250	15.1%	7,440	6,490	14.6%
Advertisement & Sales Promotion	2,050	1,730	18.5%	4,120	3,440	19.8%
Other Expenses	6,760	5,850	15.6%	13,360	11,100	20.4%
EBITDA	13,550	12,340	9.8%	24,580	23,980	2.5%
EBITDA margin %	13.7%	15.2%	-149 bps	12.3%	14.4%	-214 bps
Depreciation	1,100	890	23.6%	2,090	1,760	18.8%
EBIT	12,450	11,450	8.7%	22,490	22,220	1.2%
Interest Expense	1,060	500	112.0%	1,850	1,050	76.2%
Financial Other Income	1,220	600	103.3%	2,210	1,040	112.5%
PBT	12,610	11,550	9.2%	22,850	22,210	2.9%
Net Profit	9,400	8,570	9.7%	17,170	16,500	4.1%

Source: Company, JM Financial

Exhibit 3. 2Q & 1HFY24 costs breakdown (standalone)

% of sales	2QFY24	2QFY23	1HFY24	1HFY23
Cost of Goods Sold	91.4%	78.8%	89.2%	79.3%
Staff Cost	3.8%	4.0%	3.7%	3.9%
Advertisement & Sales Promotion	2.1%	2.1%	2.1%	2.1%
Other Expenses	6.8%	7.2%	6.7%	6.7%

Source: Company, JM Financial

Exhibit 4. Continued strong growth trends across most parameters

	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Total Growth:									
Studded Share	30.0%	26.0%	33.5%	26.0%	32.0%	26.0%	33.0%	26.0%	33.0%
Tanishq Retail Sales Growth	75.0%	37.0%	1.0%	202.0%	13.0%	14.0%	25.0%	21.0%	27.0%
Caratlane Retail Sales growth	166.0%	84.0%	60.0%	370.0%	72.0%	60.0%	57.0%	44.0%	47.0%
World of Titan Retail Sales Growth	79.0%	24.0%	15.0%	241.0%	31.0%	14.0%	18.0%	8.0%	8.0%
Eye+ Retail Sales Growth	69.0%	19.0%	-4.0%	180.0%	12.0%	14.0%	22.0%	13.0%	9.0%
Like-to-like basis:									
Tanishq Retail Sales Growth	66.0%	31.0%	4.0%	195.0%	9.0%	9.0%	19.0%	16.0%	22.0%
Caratlane Retail Sales growth	117.0%	56.0%	34.0%	306.0%	41.0%	35.0%	29.0%	8.0%	10.0%
World of Titan Retail Sales Growth	78.0%	22.0%	13.0%	227.0%	26.0%	8.0%	11.0%	2.0%	2.0%
Eye+ Retail Sales Growth	59.0%	10.0%	-13.0%	185.0%	1.0%	1.0%	10.0%	3.0%	0.0%

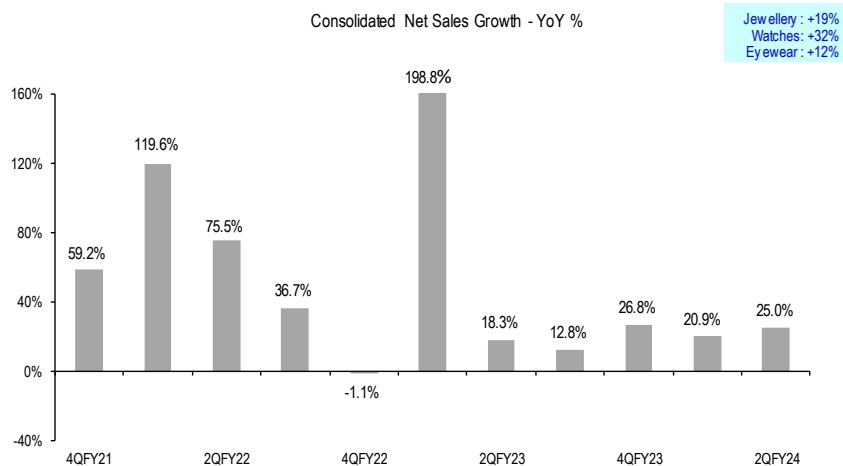
Source: Company, JM Financial

Exhibit 5. Total store-counts across key formats increased by c.19% yoY

	Sep'22		Jun'23		Sep'23	
	Store Count	Sq ft	Store Count	Sq ft	Store Count	Sq ft
World of Titan	577	434,000	636	453,000	646	457,000
Helios	165	126,000	207	151,000	212	154,000
Fastrack	163	78,600	188	89,000	193	93,000
Tanishq (incl Zoya)	409	1,590,000	440	1,824,000	453	1,905,000
Titan Eye+	822	504,000	901	557,000	905	564,000
Fastrack Eye	5	5,800	7	7,600	8	8,500
Taneira	31	88,000	47	139,000	51	147,000
Mia	79	37,000	119	72,000	145	99,000
Caratlane	157	161,000	233	293,000	246	324,000
TOTAL	2,408	3,024,400	2,778	3,585,600	2,859	3,751,500

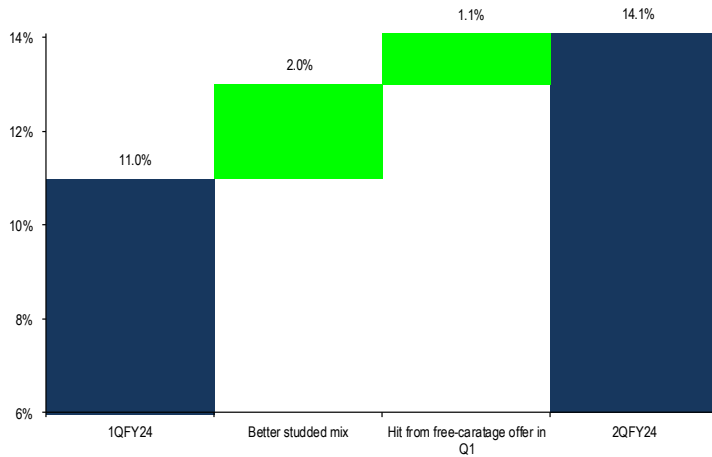
Source: Company, JM Financial

Exhibit 6. Revenue performance remained strong across categories



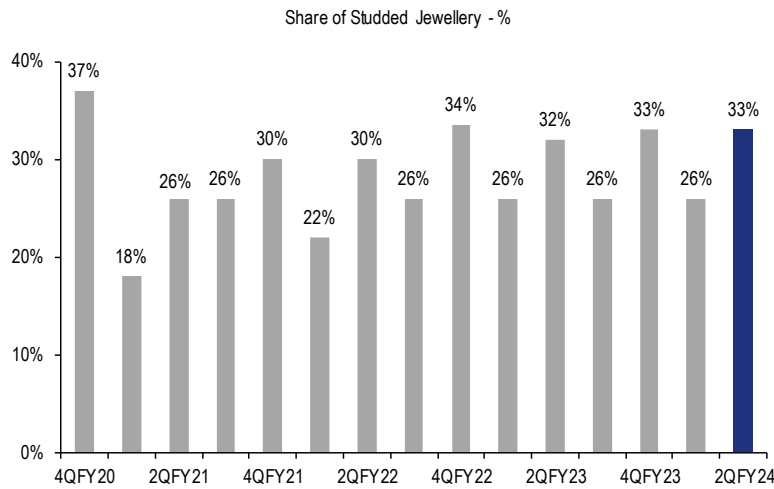
Source: Company, JM Financial

Exhibit 7. A simplistic view of the drivers behind the Jewellery margin uplift between 1Q's 11% and 2Q's 14.1%



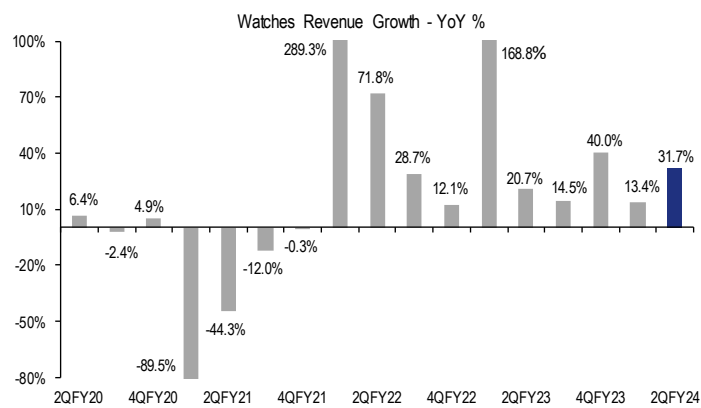
Source: Company, JM Financial

Exhibit 8. Studded jewellery share at 33% during the quarter



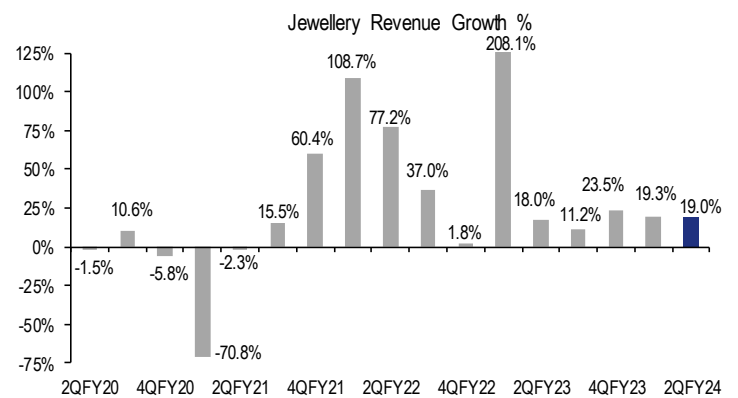
Source: Company, JM Financial

Exhibit 9. Watches growth comprises Analog 22%, Wearables 131%



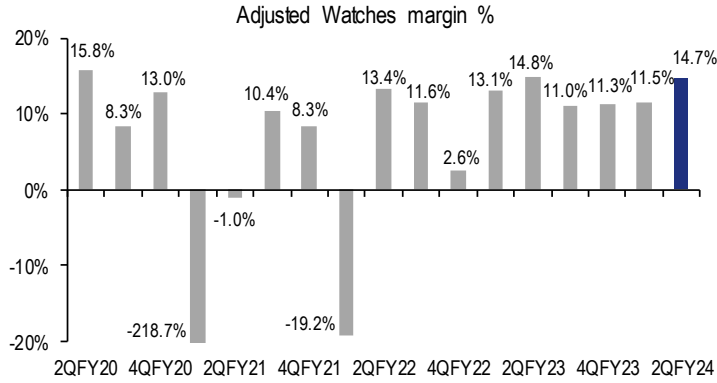
Source: Company, JM Financial

Exhibit 10. Jewellery growth in 2Q was led by double-digit growth in both Buyers and Avg Bill Value



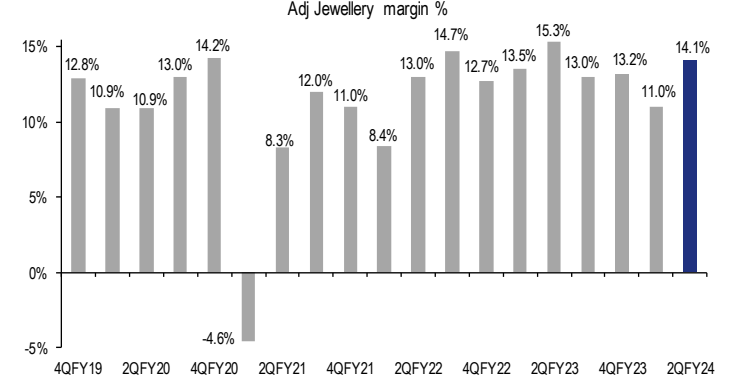
Source: Company, JM Financial

Exhibit 11. Watches margin of 14.7% was still 19bps lower yoy despite a very strong growth in topline



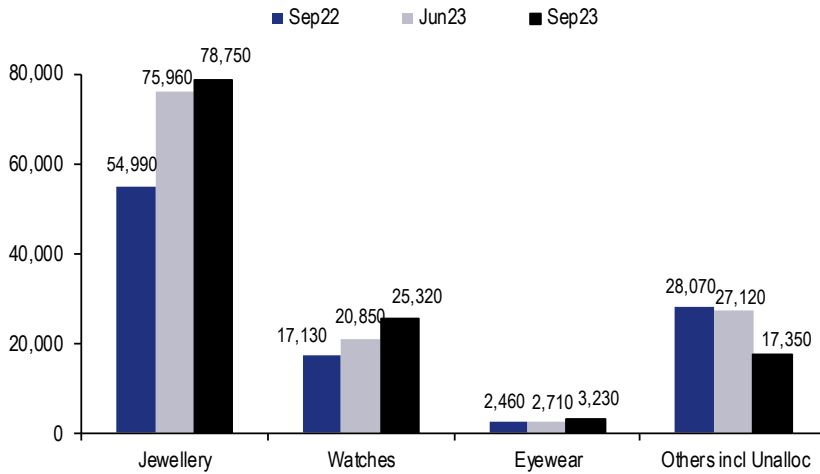
Source: Company, JM Financial

Exhibit 12. Jewellery margin was strong at 14.1% but 125bps lower yoy



Source: Company, JM Financial

Exhibit 13. Trends in capital employed (consolidated) (INR mn)



Source: Company, JM Financial

Exhibit 14. Titan one-year forward PE band



Source: Company, Bloomberg, JM Financial

Financial Tables (Consolidated)

Profit & Loss Statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Sales (Gross)	274,170	379,240	458,377	529,156	610,033
Sales Growth	36.5%	38.3%	20.9%	15.4%	15.3%
Other Operating Income	13,820	26,510	5,095	5,881	6,780
Total Revenue	287,990	405,750	463,471	535,037	616,813
Cost of Goods Sold/Op. Exp.	216,410	303,550	343,424	394,384	454,364
Personnel cost	13,490	16,470	20,044	23,034	26,432
Other expenses	24,680	36,940	43,952	49,987	56,852
EBITDA	33,410	48,790	56,051	67,633	79,164
EBITDA (%)	12.2%	12.9%	12.2%	12.8%	13.0%
EBITDA Growth (%)	93.8%	46.0%	14.9%	20.7%	17.0%
Depn & Amort	3,990	4,410	4,912	5,592	6,358
EBIT	29,420	44,380	51,138	62,041	72,806
Other Income	2,340	3,080	4,073	4,634	5,930
Finance Cost	2,180	3,000	3,432	3,623	3,848
PBT before Excep & Forex	29,580	44,460	51,780	63,052	74,889
Excep & forex Inc/Loss(-)	-540	0	0	0	0
PBT	29,040	44,460	51,780	63,052	74,889
Taxes	7,060	11,730	13,696	16,678	19,809
Extraordinary Inc/Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	250	230	229	0	0
Reported Net profit	21,730	32,500	37,855	46,374	55,080
Adjusted Net Profit	22,139	32,470	37,855	46,374	55,080
Net Margin (%)	8.1%	8.6%	8.3%	8.8%	9.0%
Diluted share capital (mn)	890.0	890.0	890.0	890.0	890.0
Diluted EPS (Rs)	24.9	36.5	42.5	52.1	61.9
Diluted EPS Growth	127.5%	46.7%	16.6%	22.5%	18.8%
Total Dividend + Tax	6,675	8,900	13,249	18,550	27,540
Dividend Per Share (Rs)	7.5	10.0	14.9	20.8	30.9

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	93,030	118,510	147,465	180,590	217,120
Share capital	890	890	890	890	890
Reserves & Surplus	92,140	117,620	146,575	179,700	216,230
Preference Share Capital	0	0	0	0	0
Minority Interest	300	530	0	0	0
Total Loans	5,180	21,950	21,950	21,950	21,950
Def. Tax Liab / Assets (-)	-1,810	-1,550	-1,247	-878	-441
Total - Equity & Liab	96,700	139,440	168,168	201,662	238,630
Net Fixed Assets	12,700	12,690	57,780	56,485	55,034
Gross Fixed Assets	24,060	27,100	31,069	35,548	40,642
Intangible Assets	0	0	46,210	46,210	46,210
Less: Depn. & Amort.	8,350	9,970	14,882	20,475	26,833
Net Lease Assets & Capital WIP	-3,010	-4,440	-4,616	-4,798	-4,985
Investments	2,940	25,150	18,863	22,109	26,004
Current Assets	180,840	212,080	244,297	301,294	361,943
Inventories	136,090	165,840	200,446	231,398	265,929
Sundry Debtors	5,650	6,740	8,146	9,404	10,842
Cash & Bank Balances	15,730	13,430	7,028	29,271	51,179
Loans & Advances	12,750	11,360	12,496	13,746	15,120
Other Current Assets	10,620	14,710	16,181	17,475	18,874
Current Liab. & Prov.	99,780	110,480	152,772	178,226	204,351
Current Liabilities	96,600	106,030	147,824	172,679	198,151
Provisions & Others	3,180	4,450	4,947	5,548	6,200
Net Current Assets	81,060	101,600	91,526	123,068	157,592
Application of Funds	96,700	139,440	168,168	201,662	238,630

Source: Company, JM Financial

Cash Flow statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	29,420	44,380	51,138	62,041	72,806
Depn. & Amort.	3,990	4,410	4,912	5,592	6,358
Net Interest Exp. / Inc. (-)	-160	-80	-641	-1,012	-2,082
Inc (-) / Dec in WCap.	-32,200	-24,130	3,552	-9,484	-12,811
Others	-270	660	716	1,380	2,520
Taxes Paid	-8,020	-11,540	-13,576	-16,493	-19,614
Operating Cash Flow	-7,240	13,700	46,101	42,025	47,177
Capex	-2,160	-4,200	-3,969	-4,480	-5,094
Free Cash Flow	-9,400	9,500	42,132	37,545	42,083
-Inc/dec in investments	12,980	-15,640	-39,923	-3,246	-3,895
Other current assets	820	1,730	4,250	4,816	6,117
Investing Cash Flow	11,640	-18,110	-39,641	-2,910	-2,872
Inc/(dec) in capital	0	0	0	0	0
Dividend+Tax Thereon	-3,550	-6,660	-8,900	-13,249	-18,550
Inc/dec in loans	3,420	16,770	-530	0	0
Other assets	-3,900	-5,540	-3,432	-3,623	-3,848
Financing Cash Flow	-4,030	4,570	-12,862	-16,872	-22,398
Inc / Dec (-) in Cash	370	160	-6,402	22,243	21,908
Opening cash balance	15,360	13,270	13,430	7,028	29,271
Closing cash balance	15,730	13,430	7,028	29,271	51,179

Source: Company, JM Financial

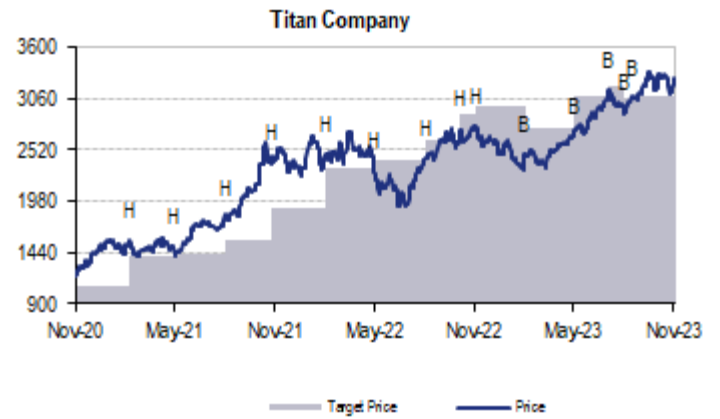
Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	8.1%	8.6%	8.3%	8.8%	9.0%
Asset Turnover (x)	3.2	3.2	3.0	2.9	2.8
Leverage Factor (x)	1.0	1.1	1.2	1.1	1.1
RoE	26.4%	30.7%	28.5%	28.3%	27.7%
Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (Rs)	104.5	133.2	165.7	202.9	244.0
ROIC (%)	36.4%	36.0%	30.7%	31.0%	34.2%
ROE (%)	26.4%	30.7%	28.5%	28.3%	27.7%
Net Debt-equity ratio (x)	-0.1	-0.1	0.0	-0.1	-0.2
PER	131.6	89.7	77.0	62.8	52.9
PBV	31.3	24.6	19.8	16.1	13.4
EV/EBITDA	86.8	59.4	51.9	42.6	36.1
EV/Net Sales	10.6	7.6	6.3	5.4	4.7
Debtor days	8	6	6	6	6
Inventory days	181	160	160	160	159
Creditor days	138	108	132	135	135

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
9-Jun-20	Hold	1,040	
9-Jun-20	Hold	1,060	1.9
8-Jul-20	Hold	1,040	-1.9
11-Aug-20	Hold	1,040	0.0
8-Oct-20	Hold	1,040	0.0
29-Oct-20	Hold	1,085	4.3
10-Feb-21	Hold	1,405	29.5
30-Apr-21	Hold	1,415	0.7
5-Aug-21	Hold	1,560	10.2
28-Oct-21	Hold	1,905	22.1
4-Feb-22	Hold	2,335	22.6
4-May-22	Hold	2,410	3.2
5-Aug-22	Hold	2,620	8.7
7-Oct-22	Hold	2,900	10.7
5-Nov-22	Hold	2,980	2.8
3-Feb-23	Buy	2,745	-7.9
3-May-23	Buy	3,090	12.6
7-Jul-23	Buy	3,190	3.2
3-Aug-23	Buy	3,070	-3.8
19-Aug-23	Buy	3,085	0.5

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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* REITs refers to Real Estate Investment Trusts.

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