

Focus on recovery amid tough demand scenario

The Covid-19 pandemic had an unprecedented impact on the retail industry, forcing temporary closure of physical stores from mid-March onwards in India. The same impacted Titan's performance in Q4FY20. However, controlled opex and higher gross margins led to significant beat in profitability. As guided by the management in its pre-quarterly update, the jewellery division reported revenue de-growth of 5% YoY to ₹ 3899.3 crore (SSSG: -9.0%). The company recorded impressive growth of 16.5% in January-February despite high gold prices (up 26% YoY). Watches division reported steady revenue growth of 5% YoY to ₹ 558.3 crore (15.7% growth in January-February). Owing to activation of diamond studded jewellery, gross margins improved sharply by 250 bps YoY to 30.4%. Furthermore, significant compression of operating cost aided profitability. Employee expenses remained constant YoY at ₹ 285.0 crore (down 13% sequentially), while advertisement expenses fell 30% YoY to ₹ 97.1 crore. EBITDA margins (adjusting for Ind-AS 116) for the quarter improved 260 bps YoY to 11.7%. On account of a steady operational performance, PBT grew 13% YoY to ₹ 509.3 crore. The company has now opened ~75% of total 1800 stores and expects to operate at ~90% by June end. The initial response has been inspiring with average daily sales of certain stores reaching as high as 80% of pre-Covid levels. The management remains cautious in the near term outlook and targets normalcy by Q4FY21.

Festive/wedding demand to aid recovery in H2FY21

FY20 was a challenging year for Tanishq owing to a significant surge in gold prices (up ~31% YoY) and slowdown in discretionary spending. Despite the dual headwinds, Tanishq continued to outperform the industry with sustained market share gains (revenue growth: 6% YoY in FY20). With washout of sales in the second half of March, grammage fell 20% YoY in Q4FY20. Titan added highest number of Tanishq stores in a year (40) taking total store count to 327 as on FY20. Going forward, it expects a gradual recovery in jewellery space from H2FY21 onwards led by festive buying in Q3FY21 and benefits of deferred demand for wedding jewellery. Cost optimisation exercise will continue in FY21E (15% fixed cost reduction) to limit the impact of negative operating leverage (total fixed cost component is <10% for jewellery segment).

Valuation & Outlook

Disruption in sales led to a material increase in capital employed (mainly owing to higher inventory) for FY20. However, Titan has a comfortable liquidity position due to adequate banking limits and ability to issue commercial paper at attractive rates (raised ~₹ 1000 crore at 4% interest rate). With a gradual rise in cash inflows, the management expects to be net cash positive by September 2020. Titan remains a quality franchise with strong brand patronage. The stock saw a sharp run up in the last month (up 22%) and is currently trading at rich valuations (43.7x FY22E EPS). We continue to remain structurally positive on the company and its long term growth prospects. However, post the recent surge in stock price, we downgrade it a notch from BUY to **HOLD** with a target price of ₹ 1095 (48.0x FY22E EPS) (earlier TP: ₹ 1150).



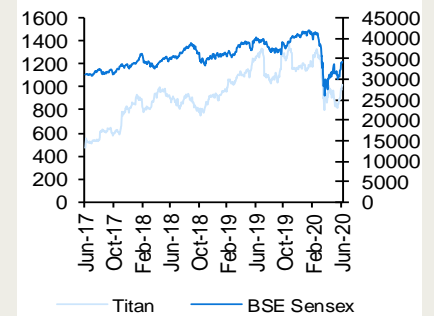
Particulars

Particular	Amount
Market Capitalisation (₹Crore)	88,423.5
Debt (FY 20) (₹Crore)	722.9
Cash (FY 20) (₹Crore)	381.1
EV (₹Crore)	88,765.2
52 week H/L	1389 / 720
Equity Capital (₹Crore)	88.8
Face Value (₹)	1

Key Highlights

- Jewellery division reported impressive sales growth of 16.5% in January-February despite high gold prices
- Downgrade from BUY to HOLD

Price Chart



Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

Key Financial Summary

(₹Crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	16,119.8	19,778.5	21,051.5	17,768.5	24,468.9	7.8
EBITDA	1,644.7	2,136.5	2,466.6	1,858.6	3,099.6	12.1
PAT	1,130.1	1,404.2	1,501.4	1,086.2	2,024.7	16.1
EPS (₹)	12.7	15.8	16.9	12.2	22.8	
P/E (x)	78.2	63.0	58.9	81.4	43.7	
EV/Sales (x)	5.5	4.4	4.2	5.0	3.6	
EV/EBITDA (x)	53.4	40.9	36.0	47.6	28.3	
RoCE (%)	29.3	32.3	28.7	19.3	29.8	
RoE (%)	22.2	23.1	22.5	14.7	22.4	

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Revenue	4711.5	4470.3	4888.8	-3.6	6527.4	-27.8	As guided by the management in its pre-quarterly update, revenue declined by 4% YoY mainly owing to store closures from mid-march onwards. Revenue in Jan-Feb period stood at ~15%
Raw Material Expense	3,277.9	3,158.7	3,525.7	-7.0	4,861.9	-32.6	Gross margins improved by 260 bps YoY owing to higher share of studded jewellery
Employee Expenses	284.7	333.1	286.6	-0.6	326.7	-12.9	
Advertising Expenses	97.1	150.0	138.3	-29.8	167.9	-42.2	Significant reduction in marketing spends in the quarter
Other Expenses	439.3	441.2	489.8	-10.3	412.4	6.5	
EBITDA	612.5	387.4	448.5	36.6	758.4	-19.2	Reported EBITDA and margins are higher owing implementation of Ind-AS 116 Adjusting for Ind-AS 116 impact, EBITDA was at ~₹552 crore, with margins of ~11.7%
EBITDA Margin (%)	13.0	8.7	9.2	383 bps	11.6	138 bps	The base quarter (Q4FY 19) had an exceptional expense worth ₹46.0 crore pertaining to IL&FS provision
Depreciation	102.1	47.4	40.8	150.0	87.7	16.4	
Interest	42.7	18.4	12.5	242.2	44.7	-4.4	
Other Income	41.7	22.9	56.3	-25.9	22.7	83.8	
PBT before Exceptional ite	509.3	344.6	451.4	12.8	648.7	-21.5	PBT lower by ₹6.6 crore owing to implementation of Ind-AS 116
Exceptional Item	0.0	0.0	0.0		0.0		
PBT	509.3	344.6	451.4	12.8	648.7	-21.5	
Tax Outgo	166.2	75.8	103.2	61.0	174.0	-4.5	
PAT	343.1	268.8	348.3	-1.5	474.2	-27.7	Higher tax rate impacted PAT growth
Key Metrics							
Jewellery							
Revenues (₹Crore)	3,899.3	3,756.4	4,105.4	-5.0	5,605.8	-30.4	Retail sales growth: (-)4%, LTL: (-)9%.
Segment EBIT Margin (%)	13.6	NA	12.2	144 bps	12.6	103 bps	EBIT margins improved 144 bps YoY largely owing to cut in advertising expense
Watches							
Revenues (₹Crore)	558.3	470.1	531.2	5.1	627.2	-11.0	Revenue growth in Jan-Feb: 15.7% . E-commerce continues to be the fastest growing channel
Segment EBIT Margin (%)	9.7	NA	2.3	740 bps	6.2	350 bps	EBIT margins improved sharply owing to higher gross margins and lower advertising spends

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹Crore)	FY21E			FY22E			Remarks
	Old	New	% Change	Old	New	% Change	
Revenue	19,687.0	17,768.5	-9.7	26,239.7	24,468.9	-6.7	
EBITDA	1,810.4	1,858.6	2.7	2,899.5	3,099.6	6.9	Higher EBITDA and EBITDA margins owing to incorporation of IND-AS 116
EBITDA Margin (%)	9.2	10.5	126 bps	11.1	12.7	162 bps	
PAT	1,302.5	1,086.2	-16.6	2,126.5	2,024.7	-4.8	
EPS (₹)	14.7	12.2	-16.8	24.0	22.8	-5.0	

Source: Company, ICICI Direct Research

Key conference call takeaways

Jewellery Segment:

- Out of 329 Tanishq stores, around 280 have reopened in 192 out of 200 cities. The company is expecting around 300 stores to be operational by June end
- Tanishq retail sales had grown 12% from January 1, 2020 to March 15, 2020, while during the lockdown from March 16-31, sales declined 74%
- Of the Tanishq stores that have been operational for at least four weeks post reopening, average daily sales has reached 80% of pre-Covid level
- On the store addition front, the company added 40 Tanishq stores in FY20. Around eight to nine stores that were scheduled to open in March were delayed by the lockdown. For FY21, the company is planning to add 25 stores while around 40 stores are expected to be added in FY22E
- On the product portfolio front, Titan is looking to enhance its presence in lower price point products
- Titan is looking to enhance its market share as it believes the consumers would be more concerned about safety in the current scenario. The company has the capability to provide best in class safe shopping experience to customers, which smaller players may be unable to provide. Also, smaller players can face problems related to liquidity and ramp up post re-opening, which can lead to market share gains for Titan
- The management indicated that there was a new customer addition of around 35%. Of these, 27% were totally new customers for Titan and 8% were new customers for Tanishq but may have bought other Titan products
- Margins in the jewellery segment were higher owing to loss in share of plain gold jewellery, lower customer discounts and higher share of studded jewellery
- On the gold sourcing front, gold on exchange share was at 42% (33% non Tanishq gold and 9% Tanishq gold) while gold on lease share was around 40% and 10-15% was outright jewellery purchased from vendors
- Share of studded jewellery for FY20 was at 36.9% vs. 35.6% in FY19. Share of wedding jewellery improved 200 bps YoY to 23% in FY20

Watches and others:

- On the store opening front, 576 stores (74% of watches stores) have reopened currently and are clocking an average daily sale of around 48% of pre-Covid level
- The company has enhanced its focus on Omni channel. Currently, 165 stores are connected through the Omni channel network
- On the eyewear stores front, 50% of stores that have opened are operating at close to average daily sales of February 2020 level
- Online orders for eyewear grew by 5x. The company believes that assisted e-commerce would be a better channel, going forward
- On the overall company level cost front, the management indicated that it is in negotiations with landlords for rental waivers and has also been able to secure significant waivers. Also, discussions are taking place with landlords to shift to a revenue sharing basis for the next few months till the situation normalises

Exhibit 3: Retail sales trend H2FY20

Channels	Retail sales growth over same period, FY20		
	Q3	1st Jan - 15th Mar	16th Mar - 31st Mar
WOT	11%	5%	-77%
Helios	23%	23%	-75%
LFS	6%	5%	-92%
Tanishq	15%	12%	-74%
Caratlane	71%	36%	-81%
Eye Plus	11%	8%	-74%

Source: Company, ICICI Direct Research

Exhibit 4: Sales recovery rate after four weeks of opening

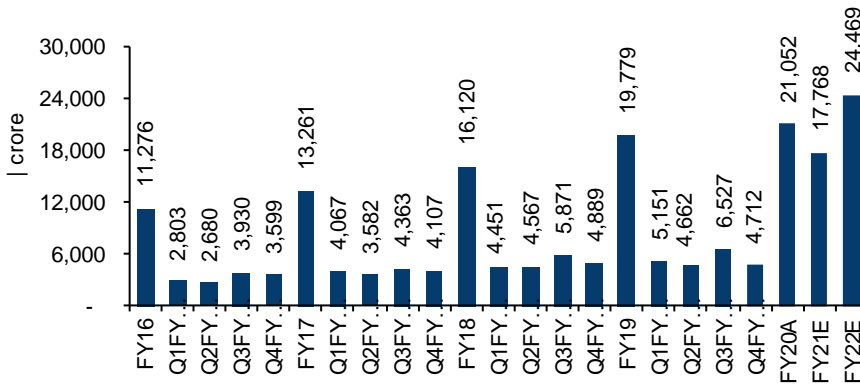
Format	Stores open	Share of Format sale	% sale of ADS
	(All)	(All)	(4 weeks open)
	No	%	%
WOT	380	75%	45%
Fastrack	132	73%	46%
Helios	52	56%	105%
Tanishq	271	82%	80%
Caratlane	65	73%	122%
Eyeplus	469	80%	44%
Taneira	5	56%	28%

ADS - Average Daily Sales

Source: Company, ICICI Direct Research

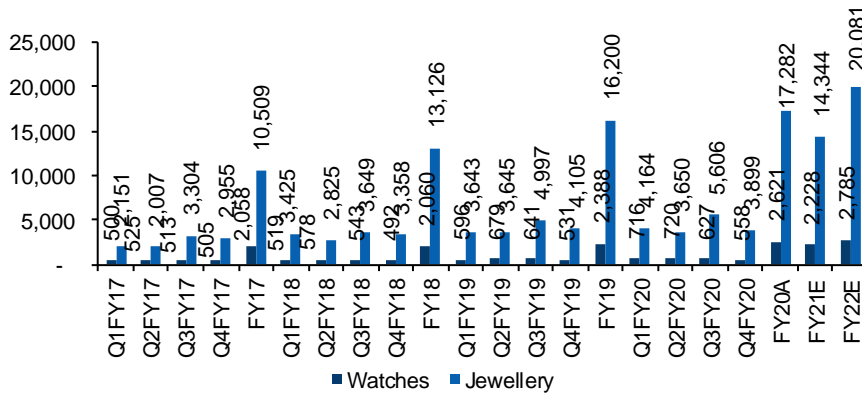
Financial story in charts

Exhibit 5: Revenue trend



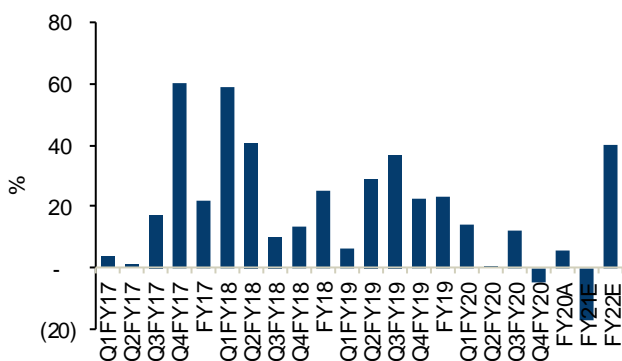
Source: Company, ICICI Direct Research

Exhibit 6: Divisional performance (revenue)



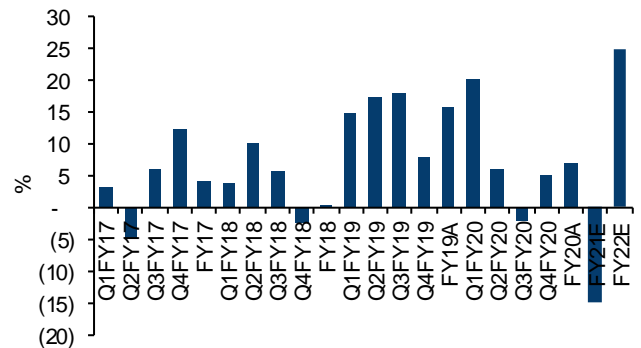
Source: Company, ICICI Direct Research

Exhibit 7: Jewellery segment growth



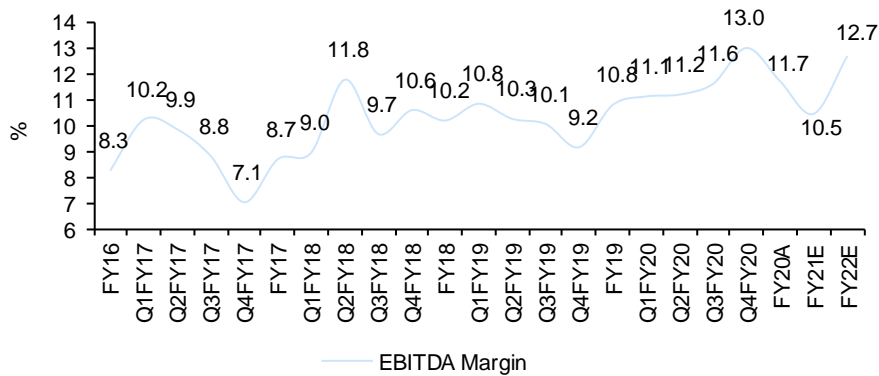
Source: Company, ICICI Direct Research

Exhibit 8: Watches segment growth



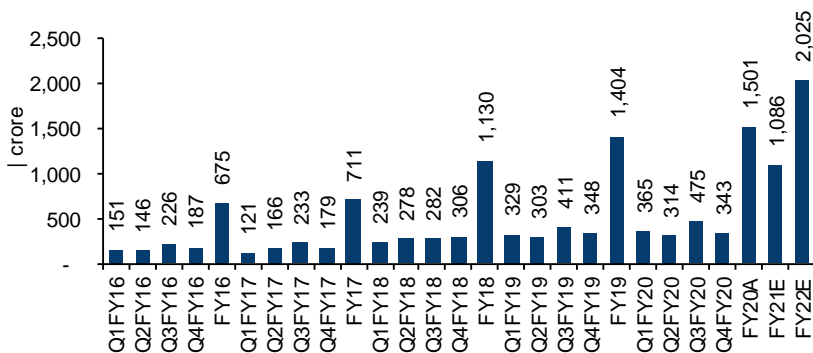
Source: Company, ICICI Direct Research

Exhibit 9: EBITDA margin trend (post Ind-AS 116)



Source: Company, ICICI Direct Research.

Exhibit 10: Net profit trend



Source: Company, ICICI Direct Research.

Exhibit 11: Valuation

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY 19	19,778.5	22.7	15.8	24.3	63.0	40.9	23.1	32.3
FY 20A	21,051.5	6.4	16.9	6.9	58.9	36.0	22.5	28.7
FY 21E	17,768.5	-15.6	12.2	-27.7	81.4	47.6	14.7	19.3
FY 22E	24,468.9	37.7	22.8	86.4	43.7	28.3	22.4	29.8

Source: Company, ICICI Direct Research

Financial summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20A	FY21E	FY22E
Total operating Income	19,778.5	21,051.5	17,768.5	24,468.9
Growth (%)	22.7	6.4	-15.6	37.7
Raw Material Expenses	14,394.3	15,155.1	12,953.2	17,715.5
Employee Expenses	1,019.3	1,199.4	1,208.3	1,272.4
Mfg, Admin & selling Exps	2,228.5	2,230.5	1,748.4	2,381.4
Total Operating Expenditure	17,642.0	18,585.0	15,909.9	21,369.3
EBITDA	2,136.5	2,466.6	1,858.6	3,099.6
Growth (%)	29.9	15.5	-24.7	66.8
Depreciation	162.8	348.0	352.5	396.1
Interest	52.5	166.2	184.5	138.2
Other Income	182.9	153.2	122.6	134.8
PBT	2,104.1	2,105.7	1,444.2	2,700.1
Exceptional items*	145.0	0.0	0.0	0.0
Total Tax	568.2	609.0	363.9	680.4
Share of JV/Minority int	13.3	4.7	6.0	5.0
PAT	1,404.2	1,501.4	1,086.2	2,024.7
Growth (%)	24.3	6.9	-27.7	86.4
EPS (₹)	15.8	16.9	12.2	22.8

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20A	FY21E	FY22E
PAT	1,404.2	1,501.4	1,086.2	2,024.7
Add: Depreciation	162.8	348.0	352.5	396.1
Add: Finance Cost	52.5	166.2	184.5	138.2
(Inc)/dec in Current Assets	-1,531.2	-1,310.3	3.8	-1,695.9
Inc/(dec) in CL and Provisions	1,239.9	-1,000.0	-393.3	1,179.0
Others	0.0	-53.0	0.0	0.0
CF from operating activities	1,328.2	-347.8	1,233.7	2,042.1
(Inc)/dec in Investments	-73.8	-49.5	-18.2	-40.0
(Inc)/dec in Fixed Assets	-254.3	-326.9	-180.0	-315.0
(Inc)/dec in CWIP	11.6	13.5	5.5	3.8
Others	-19.5	267.0	-90.0	-120.0
CF from investing activities	-336.0	-95.9	-282.7	-471.2
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-47.2	691.1	-322.9	-362.9
Less: Finance Cost	-52.5	-166.2	-184.5	-138.2
Dividend Paid	-423.9	-533.6	-355.1	-375.5
Others	-20.0	-233.1	-143.9	-153.5
CF from financing activities	-543.6	-241.7	-1,006.4	-1,030.1
Net Cash flow	448.6	-685.4	-55.5	540.8
Opening Cash	617.9	1,066.5	381.1	325.6
Closing Cash	1,066.5	381.1	325.6	866.5

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20A	FY21E	FY22E
Liabilities				
Equity Capital	88.8	88.8	88.8	88.8
Reserve and Surplus	5,981.4	6,580.0	7,311.1	8,960.3
Total Shareholders funds	6,070.2	6,668.8	7,399.9	9,049.1
Total Debt	31.8	722.9	400.0	37.1
Deferred Tax Liability	(68.8)	(152.8)	(152.8)	(147.4)
Other long term liabilities	14.1	1,247.4	1,247.4	1,247.5
Total Liabilities	6,047.2	8,486.2	8,894.5	10,186.2
Assets				
Gross Block	1,784.2	2,111.1	2,291.1	2,606.1
Less: Accu Depreciation	364.6	559.6	768.1	1,005.2
Net Block	1,419.6	1,551.5	1,523.0	1,600.9
Capital WIP	31.8	18.2	12.8	8.9
Goodwill on Consolidation	123.0	123.0	123.0	123.0
Total Fixed Assets	1,574.4	1,692.8	1,658.8	1,732.8
Investments	132.4	182.0	200.1	240.2
Inventory	7,038.8	8,103.0	7,886.3	9,050.1
Debtors	420.5	311.6	389.4	496.1
Loans and Advances	1,286.8	1,641.8	1,776.8	2,202.2
Other Current Assets	-	-	-	-
Cash	1,066.5	381.1	325.6	866.5
Total Current Assets	9,812.6	10,437.5	10,378.2	12,614.9
Creditors	3,258.9	2,181.3	2,093.3	3,217.8
Other Current Liabilities	2,139.0	2,437.5	2,132.2	2,202.2
Provisions	196.0	285.8	285.8	270.2
Total Current Liabilities	5,593.9	4,904.6	4,511.3	5,690.3
Net Current Assets	4,218.7	5,532.9	5,866.9	6,924.6
Others Non Current Assets	121.7	1,078.6	1,168.6	1,288.6
Application of Funds	6,047.2	8,486.2	8,894.5	10,186.2

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
(Year-end March)	FY19	FY20A	FY21E	FY22E
Per share data (₹)				
EPS	15.8	16.9	12.2	22.8
Cash EPS	17.5	20.8	16.1	27.2
BV	68.4	75.1	83.4	101.9
DPS	3.8	5.0	4.0	3.6
Cash Per Share	12.0	4.3	3.7	9.8
Operating Ratios				
EBITDA Margin (%)	10.8	11.7	10.5	12.7
PBT Margin (%)	10.6	10.0	8.1	11.0
PAT Margin (%)	7.0	7.1	6.1	8.3
Inventory days	129.9	140.5	162.0	135.0
Debtor days	7.8	5.4	8.0	7.4
Creditor days	60.1	37.8	43.0	48.0
Return Ratios (%)				
RoE	23.1	22.5	14.7	22.4
RoCE	32.3	28.7	19.3	29.8
RoIC	40.3	31.0	20.7	30.6
Valuation Ratios (x)				
P/E	63.0	58.9	81.4	43.7
EV / EBITDA	40.9	36.0	47.6	28.3
EV / Net Sales	4.4	4.2	5.0	3.6
Market Cap / Sales	4.5	4.2	5.0	3.6
Price to Book Value	14.6	13.3	11.9	9.8
Solvency Ratios				
Debt/EBITDA	0.0	0.3	0.2	0.0
Debt / Equity	0.0	0.1	0.1	0.0
Current Ratio	1.8	2.1	2.3	2.2
Quick Ratio	0.5	0.5	0.6	0.6

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct coverage universe (Retail)

Company	CMP		Rating	M Cap		EPS (₹)			P/E(x)			EV/EBITDA(x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)		(₹crore)	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	
Bata	1394	1430	HOLD	17927	25.4	19.0	35.7	54.8	73.3	39.1	18.7	23.5	15.7	28.2	17.6	28.1	17.2	11.7	19.5	
Titan	996	1095	HOLD	88423	16.9	12.2	22.8	58.9	81.4	43.7	36.0	47.6	28.3	28.7	19.3	29.8	22.5	14.7	22.4	
Trent	555	560	BUY	19763	3.5	1.0	7.8	160.7	569.5	70.9	29.3	39.4	21.8	15.9	10.4	19.5	5.1	1.4	10.6	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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