

Retail Equity Research

Titan Company Limited

Consumer Discretionary

BSE CODE: 500114 NSE CODE: TITAN
Bloomberg CODE: TTAN:IN SENSEX: 40,345

HOLD

12M Investment period Rating as per Large Cap
CMP Rs 1,156 TARGET Rs 1,232 RETURN 7% ↑
(Closing: 11-11-19)

KEY CHANGES:

TARGET ↑

RATING ↓

EARNINGS ↑

Muted quarter

Titan Company Limited (Titan), a Tata Group company, is India's leading watches, jewellery and eyewear retailer. Currently, Titan has 1,739 stores with over 2.2mn sq ft of retail space.

- Revenue grew 2.1% YoY to Rs. 4,662cr in 2QFY20, largely impacted by muted growth in Jewellery business (0.1% YoY; ~80% of total revenue).
- EBITDA stood at Rs. 554cr (+11.5% YoY), while margin expanded to 11.9% (+100bps YoY) due to better mix and higher depreciation.
- PAT came in at Rs. 303cr, a decline of 1.0% YoY, mainly attributable to flat revenue growth and higher overhead expenses.
- Downward revision of H2FY20 revenue growth guidance for jewellery business from 20% YoY to 11-13% YoY due to higher gold prices.
- The company expects further tailwind in second half given demand uptick, with launches of new exclusive collection across the brands. We estimate PAT to grow at 23.6% FY19-21E CAGR and EBITDA margin to improve to 11.3% by FY21E.
- We assign HOLD rating to the stock, with a revised target price of Rs. 1,232 based on 51x FY21E adj. EPS.

Disappointing results

Q2FY20 revenue rose 2.1% YoY to Rs. 4,662cr vs. 4,567cr in Q2FY19. Although the Jewellery business saw a subdued performance (revenue +0.1% YoY to Rs. 3,649cr), impacted by sudden increase in gold prices, the segment continued to gain market share with +7.2% YoY in 1H20. Revenue from the Watches segment increased 6.1% YoY to Rs. 720cr, yet the segment remained largely under pressure – specially the EOB channel, world of titan and FastTrack struggled to perform. Eyewear revenue surged 28.5% YoY to Rs. 154cr on strong retail growth.

Margin declines sharply in watches while flat in jewellery

EBIT margin declined by 28bps to 10.5% in Q2FY20 despite marginally lower expenses. By segment, EBIT margin for Jewellery was flat at 10.4%, while EBIT margin in watches segment fell sharply by 202bps to 14.4%. Higher interest expenses during the quarter were offset by lower tax rates resulting in a mere 1.0% PAT decline in Q2FY20 to Rs. 303cr.

Key concall highlights

- Management highlighted that there was recovery in sales from August with improved demand in early festive season. Resultantly, Tanishq retail sales rose ~15% and ~11% in August and September.
- The company added 73 stores with a retail space of 103K sq. feet in YTD FY20 and is planning to add 60 more stores by end of FY20.
- The company has recorded a significant loss of Rs.120cr due to the sharp increase in gold prices leading to write back losses during this quarter.
- Given higher gold prices, management revised its guidance downward for jewellery segment revenue growth in H2FY20 from 20% YoY to 11-13% YoY.

Valuation

Incorporating lower revenue growth for the year, and new corporate tax rate, we raise EPS forecasts for FY20E and FY21E by 2% and 6% respectively. Given challenging demand scenario and uncertainty over gold prices, we remain cautious on the stock and assign HOLD rating to the stock with a revised target price of Rs 1,232 using a target multiple of 51x P/E on FY21E adj. EPS.

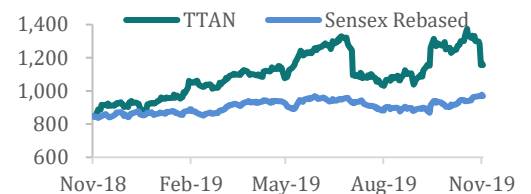
Company Data

Market Cap (cr)	Rs.102,601
Enterprise Value (cr)	Rs.106,998
Outstanding Shares (cr)	88.7
Free Float	47.0%
Dividend Yield	0.4%
52 week high	Rs.1,390
52 week low	Rs.842
6m average volume	79,403
Beta	0.8
Face value	Rs.1

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	52.9	52.9	52.9
FII's	19.2	19.6	18.8
MFs/Insti	7.4	6.9	8.8
Public	16.9	16.9	16.9
Others	3.6	3.7	2.6
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	10.7%	6.7%	36.5%
Absolute Sensex	8.0%	6.7%	14.4%
Relative Return*	2.7%	0.0%	22.0%

*over or under performance to benchmark index



Consolidated (cr)	FY19A	FY20E	FY21E
Sales	19,779	22,340	26,119
Growth (%)	22.4	12.9	16.9
EBITDA	2,174	2,524	3,135
EBITDA Margin (%)	11.0	11.3	12.0
Adj. PAT	1,404	1,667	2,145
Growth (%)	22.4	18.7	28.6
Adj. EPS	15.8	18.8	24.2
Growth (%)	22.4	18.7	28.6
P/E	71.1	61.6	47.9
P/B	16.4	14.1	11.5
EV/EBITDA	46.5	41.1	32.9
ROE (%)	23.1	22.9	24.1
D/E	0.4	0.3	0.3

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Revenue	4,662	4,567	2.1	5,151	(9.5)	9,813	9,018	8.8
EBITDA	554	497	11.5	631	(12.1)	1,185	1,016	16.6
EBITDA margins	11.9	10.9	100bps	12.2	(30bps)	12.1	11.3	80bps
Depreciation	82	43	92.1	76	8.2	158	84	89.3
EBIT	472	454	3.9	555	(14.9)	1,026	932	10.1
Interest	45	13	232.5	34	32.5	79	24	222.8
Other Income	-	-	-	-	-	-	-	-
Exceptional Items	-	-	-	-	-	-	-	-
PBT	427	441	(3.1)	521	(18.0)	948	908	4.4
Tax	113	138	(18.2)	156	(27.8)	269	276	(2.8)
Share of profit from Associate	(3)	(2)	-	(1)	183.7	(4)	(2)	-
Minority Interest	9	(5)	-	(2)	-	6	(8)	-
Reported PAT	303	306	(1.0)	366	(17.3)	669	637	5.0
Adjustments	-	-	-	-	-	-	-	-
Adjusted PAT	303	306	(1.0)	366	(17.3)	669	637	5.0
No. of shares	88.7	88.7	-	88.9	(0.2)	88.7	88.7	-
EPS (Rs)	3.4	3.4	(1.0)	4.1	(17.1)	7.5	7.2	5.0

Segment-wise performance

Rs. cr	Q2FY2020			Q2FY2019			YoY Growth %		
	Revenue	EBIT	% Margin	Revenue	EBIT	% Margin	Revenue	EBIT	Margin
Watches	720	104	14.4	679	111	16.4	6.1	(7.0)	(202bps)
Jewellery	3,650	379	10.4	3,645	378	10.4	0.1	0.3	1bp
Eyewear	154	2	1.3	120	1	0.4	28.5	298.0	87bps
Others	148	6	4.2	128	4	2.7	15.3	78.3	149bps
Total	4,672	491	10.5	4,572	494	10.8	2.2	(0.5)	(28bps)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	23,221	27,150	22,340	26,119	(3.8)	(3.8)
EBITDA	2,703	3,225	2,524	3,135	(6.6)	(2.8)
Margins (%)	11.6	11.9	11.3	12.0	(30bps)	10bps
Adj. PAT	1,637	2,015	1,667	2,145	1.9	6.4
EPS	18.4	22.7	18.8	24.2	1.9	6.4

PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Revenue	13,100	16,156	19,779	22,340	26,119
% change	16.2	23.3	22.4	12.9	16.9
EBITDA	1,226	1,734	2,174	2,524	3,135
% change	23.1	41.4	25.4	16.1	24.2
Depreciation	111	131	163	172	189
EBIT	1,115	1,602	2,012	2,351	2,946
Interest	38	53	53	132	94
Other Income	(103)	(17)	(2)	0	(0)
PBT	975	1,533	1,957	2,219	2,852
% change	14.1	57.2	27.7	13.4	28.5
Tax	276	428	568	560	718
Tax Rate (%)	28.3	27.9	29.0	25.3	25.2
Reported PAT	711	1,130	1,404	1,667	2,145
Adj*	103	17	-	-	-
Adj PAT	814	1,147	1,404	1,667	2,145
% change	18.1	40.8	22.4	18.7	28.6
No. of shares (cr)	88.8	88.8	88.8	88.8	88.8
Adj EPS (Rs)	9.2	12.9	15.8	18.8	24.2
% change	18.1	40.8	22.4	18.7	28.6
DPS (Rs)	2.6	3.8	5.0	5.9	7.6
CEPS (Rs)	10.4	14.4	17.7	20.7	26.3

CASH FLOW

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	822	1,262	1,567	1,840	2,333
Non-cash adj.	214	(321)	903	199	273
Changes in W.C	715	(991)	(1,227)	(900)	(1,278)
C.F. Operation	1,751	(51)	1,243	1,138	1,328
Capital exp.	(261)	(299)	(245)	(311)	(362)
Change in inv.	(716)	412	-	-	-
Other invest.CF	(46)	(16)	(553)	(4)	(4)
C.F - Investment	(1,023)	96	(798)	(315)	(366)
Issue of equity	-	-	-	-	-
Issue/repay debt	(124)	79	(39)	(47)	(56)
Dividends paid	(4)	(277)	(397)	(444)	(524)
Other finance.CF	(38)	(54)	(53)	-	-
C.F - Finance	(166)	(252)	(489)	(491)	(580)
Chg. in cash	562	(207)	(44)	333	382
Closing cash	802	618	1,066	1,399	1,782

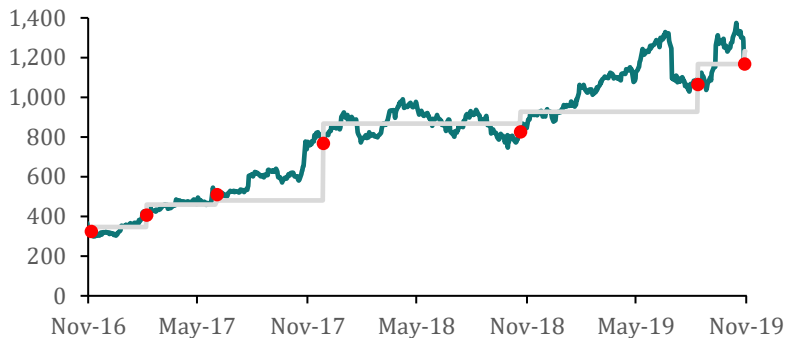
BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	802	618	1,066	1,399	1,782
Accounts Receivable	208	296	420	531	686
Inventories	4,926	5,925	7,039	7,911	9,153
Other Cur. Assets	859	763	1,062	1,106	1,172
Investments	48	57	63	67	71
Gross Fixed Assets	9,752	1,316	1,516	1,827	2,189
Net Fixed Assets	853	1,102	1,182	1,312	1,475
CWIP	143	43	29	26	23
Intangible Assets	334	349	363	375	387
Def. Tax (Net)	4	36	74	73	94
Other Assets	267	336	416	424	432
Total Assets	8,443	9,524	11,715	13,224	15,277
Current Liabilities	4,062	2,624	3,109	3,437	3,919
Provisions	121	116	131	144	158
Debt Funds	-	1,692	2,386	2,339	2,283
Other Liabilities	0	3	5	5	7
Equity Capital	89	89	89	89	89
Reserves & Surplus	4,144	5,001	5,981	7,205	8,826
Shareholder's Fund	4,232	5,090	6,070	7,293	8,914
Minority Interest	26	(2)	14	6	(5)
Total Liabilities	8,443	9,524	11,715	13,224	15,277
BVPS (Rs)	48	57	68	82	100

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	9.4	10.7	11.0	11.3	12.0
EBIT margin (%)	8.5	9.9	10.2	10.5	11.3
Net profit mgn.(%)	5.4	7.0	7.1	7.5	8.2
ROE (%)	16.8	22.2	23.1	22.9	24.1
ROCE (%)	26.2	23.6	23.7	24.4	26.3
W.C & Liquidity					
Receivables (days)	5.8	6.7	7.8	8.7	9.6
Inventory (days)	188.3	184.5	178.5	176.7	174.8
Payables (days)	108.6	27.3	23.0	22.1	21.1
Current ratio (x)	1.7	1.8	1.8	1.9	2.1
Quick ratio (x)	0.3	0.2	0.3	0.3	0.4
Turnover & Leverage					
Gross asset T.O (x)	2.7	2.9	14.0	13.4	13.0
Total asset T.O (x)	1.8	1.8	1.9	1.8	1.8
Int. covge. ratio (x)	29.6	30.3	38.3	17.8	31.3
Adj. debt/equity (x)	-	0.3	0.4	0.3	0.3
Valuation					
EV/Sales (x)	3.0	5.2	5.1	4.6	3.9
EV/EBITDA (x)	32.3	48.4	46.5	41.1	32.9
P/E (x)	49.6	72.2	71.1	61.6	47.9
P/BV (x)	9.5	16.3	16.4	14.1	11.5

Recommendation Summary



Dates	Rating	Target
5-Aug-14	BUY	400
28-Aug-15	REDUCE	260
2-Feb-16	REDUCE	275
10-May-16	REDUCE	331
15-Nov-16	HOLD	347
15-Feb-17	BUY	459
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

Investment Rating Criteria

Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0%- 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

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

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