

Rising competition

November 4, 2023

Titan posted robust topline growth of 37% (24% ex-bullion) on account of high ingot sales (4x on YoY basis) but poor PAT of 10% due to drop in jewellery business EBIT dropping by ~120 bps (Base year had one time gain on account of inventory, current margins are steady state margins).

- Revenue at ₹1,25,290 Mn vs ₹91,630 Mn (+36.7% YoY) vs ₹1,18,970 Mn (+5.3% QoQ) || Revenue excluding bullion sales at ₹1,07,130 Mn vs ₹86,810 Mn (+23% YoY)
- EBITDA at ₹14,110 Mn vs ₹12,470 Mn (+13% YoY) vs ₹11,250 Mn (+25% QoQ)
- EBITDA Margin at 11.26% vs 13.61% (YoY) vs 9.46% (QoQ)
- Adj PAT at ₹9,160 Mn vs ₹8,350 Mn (+10% YoY) vs ₹7,560 Mn (+21% QoQ)
- EPS at ₹10.28 vs ₹9.34 (YoY) vs ₹8.46 (QoQ)

Guidance/Management commentary:

- Maintains jewellery EBIT margins at 12-13% (Q2FY24 - 11.4% ex-bullion but on consolidated basis)
- Competitive intensity from organised players accelerating funnelisation, affecting local/small size players
- Titan differentiates itself from other organised players through transparency, effective exchange program, customer experience & designs
- Average ticket size : Caratlane : Rs.25k || Mia : Rs.31k || Tanishq : Rs.1.4 Lacs

Financial Summary

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net sales	2,16,450	2,87,990	4,05,750	5,00,402	5,99,059
EBIDTA	17,250	33,410	48,790	54,878	68,439
Margins (%)	8.0	11.6	12.0	11.0	11.4
Adjusted net profit	9,740	22,270	32,500	33,544	41,137
EPS (Rs)	10.9	25.0	36.5	37.7	46.2
P/E (x)	299.4	131.0	89.7	86.9	70.9
EV/EBITDA (x)	167.9	87.3	59.8	54.1	43.4
RoCE (%)	15.1	26.3	27.9	20.8	23.4
RoE (%)	13.0	23.9	27.4	23.6	24.1

Source: Company

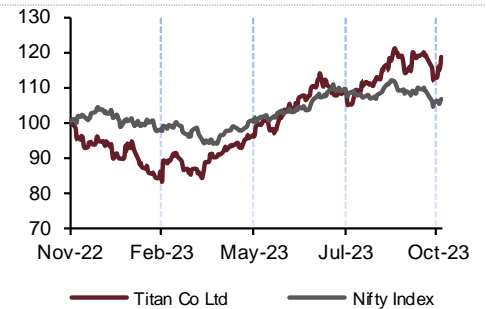
Rating	TP (Rs)	Up/Dn (%)
HOLD	3,051	-7

Market data

Current price	Rs	3,275
Market Cap (Rs.Bn)	(Rs Bn)	2,907
Market Cap (US\$ Mn)	(US\$ Mn)	34,918
Face Value	Rs	1
52 Weeks High/Low	Rs	3352 / 2269
Average Daily Volume	('000)	794
BSE Code		500114
Bloomberg		TTAN.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-23	Jun-23
Promoters	52.90	52.90
Public	47.10	47.10
Total	100	100

Source: BSE

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Conference Call Highlights

Jewellery Division :

- Diamond prices have come down in high caratage solitaires due to global prices, economic situation & over supply of rough & indirectly polished diamonds (may see margins impacted on inventory right down over next 7-8 months - Not very significant)
- Bulk of studded jewellery is non-solitaire (Don't see price correction over there)
- Difference b/w primary (+21% YoY) & secondary sales growth (+27% YoY) on account of discounting (1%) ; upstocking/destocking (3%) ; accounting entries & others (2%)
- Rs.25bn debentures issued at 7.74% for caratlane acquisition
- Like for like growth in caratlane largely through new buyer growth as caratlane keeps adding new stores
- Like for like growth in Tanishq on account of formalization + gaining market share in high value ticket size (50% via ticket size)
- 13 Tanishq International stores || relatively higher studded || performing better than anticipated || Opened 1st store of Mia in Dubai
- Zoya || 8 stores || 6-7 in pipeline || Aim to open 15 stores before Diwali next year || Top 8 towns covered || GM better than Tanishq || 95% studded || All stores are L1
- (Rs.1.4 bn revenue in FY23 || +50% expected in FY24)
- LGD now accounts of 20% of jewellery market in USA (40% volume in USA is bridal & central stone diamonds & of that 50% is LGD) || India : Solitaire is bought from investment angle

Valuation & Outlook

We believe there will be some spillover in revenue on account of shraad & adhik mas in H1 to H2. Festive season along with strong wedding season is likely to drive growth in H2. Titan is vigilant about changing product environment from natural diamonds to lab grown diamonds but doesn't wish to enter the space anytime soon. Tanishq is undisputed leader with strong trust value & aspirational brand, its moat is going to be tested with mandatory hallmarking, organised players expanding on back on PE capital & fear of lab-grown diamonds in the long run. **At CMP of Rs 3,277 the stock is trading at 62x Sept'25 expected EPS of Rs.53, we change our rating from *ACCUMULATE* to *HOLD* with a target price of Rs.3,051 (58x 12 Mnth Fwd PE multiple closer to mean).**

Quarterly Financials

Particulars (Rs Mns)	Q2FY24	Q2FY23	YoY		Q1FY24	QoQ
				Growth (%)		
Sale of products/services	1,07,080	85,670	25%		1,08,510	-1%
Other operating revenues	18,210	5,960	206%		10,460	74%
Total Operating Revenues	1,25,290	91,630	37%		1,18,970	5%
Other income	1,240	610	103%		1,140	9%
Total Income	1,26,530	92,240	37%		1,20,110	5%
Total RM Cost	95,990	66,300	45%		92,550	4%
RM to Op Revenue	76.61%	72.36%			77.79%	
Employee benefits expense	4,630	3,920	18%		4,480	3%
Advertising	2,680	2,240	20%		2,740	-2%
Ad Spends to OP Revenue	2.14%	2.44%			2.30%	
Other expenses	7,880	6,700	18%		7,950	-1%
O. Exps to Op Revenue	6.29%	7.31%			6.68%	
EBITDA (exc. OI)	14,110	12,470	13%		11,250	25%
EBITDA Margin	11.26%	13.61%			9.46%	
Depreciation	1,440	1,060	36%		1,280	13%
PBIT	13,910	12,020	16%		11,110	25%
Interest	1,400	600	133%		1,090	28%
PBT	12510	11,420	10%		10,020	25%
Total Tax	3360	3,070	9%		2,460	37%
Tax Rate	26.9%	26.9%			24.6%	
PAT	9160	8,350	10%		7,560	21%
Exceptional item						
Share of profit from JV/ Associate	10.00	-				
Minority Interest	10	40	-75%		30	-2000%
Adjusted PAT	9150	8,310	10%		7,530	22%
NPM	7.23%	9.01%			6.27%	
Equity	890	890			890	
FV	1	1			1	
EPS	10.28	9.34	10%		8.46	22%
Segmental Revenues						
Watches	10,920	8,300	32%		9,130	20%
% to Operating Income	8.6%	9.0%			7.6%	
Jewellery	1,10,810	79,970	39%		1,06,960	4%
% to Operating Income	87.6%	86.7%			89.1%	
Eyewear	1,890	1,670	13%		2,030	-7%
% to Operating Income	1.5%	1.8%			1.7%	
Others	2,180	1,960	11%		1,370	59%
% to Operating Income	1.7%	2.1%			1.1%	
Corporate (unallocated)	730	340	115%		620	18%
% to Operating Income	0.6%	0.4%			0.5%	
Total	1,26,530	92,240	37%		1,20,110	5%
PBIT Margins:						
Watches	14.7%	14.70%			11.06%	
Jewellery	11.0%	13.61%			9.55%	
Eyewear	13.2%	16.77%			17.24%	
Others	-0.92%	-1.02%			-27.01%	

Financials

P&L (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E	Cash Flow St. (Rs. mn)	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	2,16,450	2,87,990	4,05,750	5,00,402	5,99,059	Net Profit	9,740	22,270	32,500	35,277	41,146
Operating Expenses	(1,64,140)	(2,16,410)	(3,03,550)	(3,82,808)	(4,55,285)	Add: Dep. & Amort.	3,750	3,990	4,410	4,200	4,741
Employee Cost	(10,650)	(13,490)	(16,470)	(19,764)	(23,717)	Cash profits (Inc)/Dec in	13,490	26,260	36,910	39,477	45,887
Other Expenses	(24,410)	(24,680)	(36,940)	(42,952)	(51,618)	-Sundry debtors	(545)	(1,990)	(1,090)	(1,572)	(1,639)
Operating Profit	17,250	33,410	48,790	54,878	68,439	-Inventories	(3,050)	(52,010)	(29,750)	(43,301)	(39,597)
Depreciation	(3,750)	(3,990)	(4,410)	(4,200)	(4,741)	-Loans/advances	906	(3,460)	2,760	(216)	(242)
PBIT	13,500	29,420	44,380	50,678	63,698	- Other Current Assets	382	(3,410)	(5,320)	(2,029)	(4,019)
Other income	1,860	2,340	3,080	2,702	495	-Current Liab and					
Interest	(2,030)	(2,180)	(3,000)	(6,000)	(9,207)	Provisions	(2,084)	7,710	12,490	4,548	5,009
PBT	13,330	29,580	44,460	47,380	54,986	Sundry Creditors	1,923	5,050	(800)	3,170	2,899
Profit before tax (post exceptional)	13,330	29,580	44,460	47,380	54,986	Change in working capital	(2,467)	(48,110)	(21,710)	(39,401)	(37,589)
Provision for tax	(3,530)	(7,060)	(11,730)	(11,926)	(13,840)	CF from Oper. activities	11,023	(21,850)	15,200	76	8,298
Reported PAT	9,800	22,520	32,730	35,455	41,146	CF from Inv. activities	(29,444)	20,560	(31,734)	(52,970)	(8,731)
MI	(10)	(250)	(240)	(168)	(118)	CF from Fin. activities	20,210	11,410	14,250	63,790	885
Net Profit	9,790	22,270	32,490	35,287	41,028	Cash generated/(utilised)	1,789	10,120	(2,284)	10,896	452
Adjusted Profit (excl Exceptionals)	9,740	22,270	32,500	35,277	41,146	Cash at start of the year	3,811	5,600	15,730	13,446	24,342
						Cash at end of the year	5,600	15,720	13,446	24,342	24,784

Balance Sheet	FY21	FY22	FY23E	FY24E	FY25E	Ratios	FY21	FY22	FY23E	FY24E	FY25E
Equity capital	890	890	890	890	890	OPM	8.0	11.6	12.0	11.0	11.4
Reserves	74,080	92,140	1,17,620	1,42,314	1,70,998	NPM	4.46	7.67	7.95	7.01	6.86
Net worth	74,970	93,030	1,18,510	1,43,204	1,71,888	Tax rate	(26.5)	(23.9)	(26.4)	(25.2)	(25.2)
MI	50	300	530	698	816	Growth Ratios (%)					
Non Current Liabilities	12,350	13,490	18,550	46,672	46,879	Net Sales	2.8	33.1	40.9	23.3	19.7
Current Liabilities	77,150	1,05,120	1,32,640	1,86,441	2,07,370	Operating Profit	(30.1)	93.7	46.0	12.5	24.7
TOTAL LIABILITIES	1,64,520	2,11,940	2,70,230	3,77,015	4,26,953	PBIT	(36.3)	117.9	50.8	14.2	25.7
Non Current Assets	32,550	37,400	46,144	94,864	1,00,503	PAT	(35.1)	128.7	45.9	8.5	16.6
Fixed Assets	24,320	25,060	30,174	34,174	38,174	Per Share (Rs.)					
Goodwill	1,230	1,230	1,230	46,000	46,000	Net Earnings (EPS)	11	25	37	40	46
Non Current Investments	190	2,790	3,510	3,510	3,510	Cash Earnings (CPS)	15.2	29.5	41.5	44.4	51.6
Deferred Tax Asset	1,050	1,870	1,580	1,580	1,580	Dividend	3.8	7.5	10.0	11.9	13.9
Long Term Loans and Advances	430	420	540	621	714	Book Value	84.2	104.5	133.2	160.9	193.1
Other Non Current Assets	5,330	6,030	9,110	8,979	10,525	Free Cash Flow	11.3	(25.2)	14.4	1.0	13.7
Current Assets	1,31,970	1,74,540	2,24,086	2,82,150	3,26,450	Valuation Ratios					
Current investments	28,050	150	21,640	21,640	21,640	P/E(x)	299.4	131.0	89.7	82.7	70.9
Inventories	84,080	1,36,090	1,65,840	2,09,141	2,48,738	P/B(x)	38.9	31.4	24.6	20.4	17.0
Trade Receivables	3,660	5,650	6,740	8,312	9,951	EV/EBIDTA(x)	167.9	87.3	59.8	54.1	43.4
Cash and Bank Balances	5,600	15,730	13,446	24,342	24,784	Div. Yield(%)	0.1	0.2	0.3	0.4	0.4
Short Term Loans and Advances	760	4,230	1,350	1,485	1,634	FCF Yield(%)	0.3	(0.8)	0.4	0.0	0.4
Other Current Assets	9,820	12,690	15,070	17,230	19,704	Return Ratios (%)					
TOTAL ASSETS	1,64,520	2,11,940	2,70,230	3,77,015	4,26,953	ROE	13%	24%	27%	25%	24%
						ROCE	15%	26%	28%	21%	23%

Source: Dalal & Broacha Research, Company

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