

02 June 2024

India | Equity Research | Company Update

Titan Company

Consumer Staples & Discretionary

Navigating medium-term challenges

Titan's jewellery business continues to be in cruise-mode. That said, its cautious approach, in terms of both growth and EBIT margin guidance, is evident in its current phase wherein it is focusing on revenue growth at the cost of margins (reduced EBIT margin guidance to ~12%, from ~12.5% earlier; increased competition amid rising gold prices). Portfolio play (Mia and Caratlane) in jewellery shall accelerate as store/city additions opportunity for Tanishq appears harvested for now. Further, it also reduced margin guidance for watches (~12–14% vs. 18% earlier). Eyecare division is focusing on improving affordable price points and fashion quotient. It also has significant plans of ramping-up its emerging businesses (Taneira, international business). At 60x P/E FY26E, we maintain HOLD.

Jewellery division

Cautious approach towards growth guidance

The company took a cautious approach towards its growth ambitions while guiding for a range of ~15–20% CAGR over FY24-27E, given it needs to deliver 15% CAGR to meet its previous guidance ~20% CAGR over FY22-27. We like its approach of continued focus on driving customer acquisition (~6mn by FY27; 12% CAGR over FY19–24) as the household penetration of these brands are still low, in our view. Store expansion guidance of ~12% CAGR is healthy. This translates into market share of ~10–11% (currently 8.6%).

Emerging brands (Mia and CaratLane) will disproportionately contribute to growth ambitions

That said, town coverage expansion from 265 towns to 300-plus towns reflects limited town expansion opportunity, for now. Portfolio play becomes more important with rapid expansion in emerging brands (Mia and Caratlane) with plans of opening ~300 stores of these brands, out of ~350 stores over the next three years. Also, over the next three years, the company aims to double: 1) Mia's revenue; and 2) Caratlane's customer base.

Margin pressure to sustain amid increased competitive intensity

Guidance on EBIT margin was also reduced to 11.5–12.5%, vs. 12–13% earlier, amid increasing competitive intensity (access to growth capital), rising gold prices, mix changes and investments for growth.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	3,83,670	4,69,680	5,68,219	6,80,404
EBITDA	48,790	52,920	64,054	77,944
EBITDA Margin (%)	12.7	11.3	11.3	11.5
Net Profit	32,740	34,690	39,552	50,087
EPS (Rs)	36.9	39.1	44.6	56.4
EPS % Chg YoY	45.4	6.0	14.0	26.6
P/E (x)	87.9	83.0	72.8	57.5
EV/EBITDA (x)	59.2	55.6	46.0	37.6
RoCE (%)	27.3	22.6	22.8	23.7
RoE (%)	30.8	32.6	36.2	34.8

Manoj Menon

manoj.menon@icicisecurities.com
+91 22 6807 7209

Varun Singh

varun.singh@icicisecurities.com

Karan Bhuwania

karan.bhuwania@icicisecurities.com

Akshay Krishnan

akshay.krishnan@icicisecurities.com

Market Data

Market Cap (INR)	2,878bn
Market Cap (USD)	34,496mn
Bloomberg Code	TTAN IN
Reuters Code	TITN.BO
52-week Range (INR)	3,887 / 2,790
Free Float (%)	47.0
ADTV-3M (mn) (USD)	52.1

Price Performance (%)	3m	6m	12m
Absolute	(10.6)	(7.1)	14.8
Relative to Sensex	(12.6)	(17.5)	(3.3)

Previous Reports

05-05-2024: [Q4FY24 results review](#)

02-02-2024: [Q3FY24 results review](#)

Wait and watch in Lab-grown Diamonds (LGD) segment

Management does not expect a similar trajectory in demand for Lab-grown Diamonds (LGD) in India, unlike USA, due to a lack of store value concept (endemic to Asian markets). Significant increase in supplies of LGD have led to a crash in LGD prices, which have adversely impacted jewellers in USA. Titan does not see any early-mover advantage of getting into LGD given the risk to its existing studded jewellery business.

Watches and wearables division

EBIT margin guidance reduced; INR 100bn UCP revenue ambition maintained

Titan has reduced its EBIT margin guidance to 12–14%, from its earlier guidance of ~18% by FY26, largely due to increasing share of margin dilutive smart watches (14% in FY24 vs. 3% in FY19). It plans to focus on three sets of customers – 1) Luxury/premium; 2) women; and 3) Gen-Z.

Mainline and premium analogue

Titan has >50% market share in mid-price segments (INR 1k-25k); hence, its wants to focus on increasing share in premium price points (>INR 25K; 6% market share) while continuing its momentum in mid-price segment. Growth drivers: 1) Renovation of 70% of Titan World with a combination of Helios. 2) Increased focus on RAGA to cater to women's segment. 3) Launch of sub-brands under Fastrack and Sonata in mass fashion segment. 4) Continued focus on EDGE, NEBULA, XYLYS with addition of more brands in premium/luxury segment. 5) Project ZEUS (new store concept; three stores in FY25) to growing and underserved segments of HNIs, women and wedding in luxury/premium.

Continue its momentum in smart wearables

Smart wearables category's volumes have exploded with numerous players entering the value segment leading to a significant fall in average prices. As per data from IDC, Titan is the only player to grow among the top four players in FY24, though on a relatively smaller base, which is impressive given the competition from digital-first new-age brands (Fire Bolt, Noise, Boat) in this category. The company will continue to focus on design, technology partnerships, and relevant channels to maintain its momentum.

Eyecare division

Aggressive growth plans – addressing challenges head on with relevant actions

Titan has outlined its ambition to have revenues of INR 20bn (implies ~40% CAGR over next three years) with ~12% EBIT margin by FY27. The eyecare division has had double-digit market share in the premium and high-end lens market; though >90% of the market exists below these segments, where it has <5% market share. Further, in the sunglasses market, it faces an issue of less fashionable vs. competition.

The company plans to have a four-pronged approach to address this: 1) Bring parity in affordable fashion/economy segment – simplified lens menus, rationalised prices, strengthen mass segment in progressive lens with prices starting at INR 1,250. 2) Lead in progressive lenses through differentiation. 3) Have a bigger play in sunglasses – improve fashion quotient and play across the portfolio by foraying into premium sunglasses retail (new brand Runway; four–six stores for now). 4) Premiumisation in top 108 stores with improved premium look and feel. All of this is leading to healthy buyer growth across segments.

Emerging Business Division

Taneira – maintains INR 10bn revenue ambition by FY27

The company outlined its strategy and initiatives while maintaining its revenue ambition of INR 10bn by FY27. Titan will have a design-led focus on the mid-premium space while also aiming to win in the wedding and festival occasions space (60% of purchases). It plans to leverage brand trust (certifications/tags and Tata trust) while bringing designs from 100-plus clusters with product portfolio across price points.

International business – ambition of USD 500mn and 500k customers by FY27

Titan's international business has been doubling its revenue every year over the last three years. It plans to have 75 watch EBOs, 25 Tanishq, 10 Titan Eye+ and 5 Mia stores by FY25. In Tanishq, it will be focusing on: 1) Indian diaspora for first with plans to go beyond Indians in future; 2) having ~50 stores around the world with regional Tanishq websites servicing each region; and 3) gaining share in the GCC region (late entrant), Singapore and North America. Overall share of international business is expected to increase to ~5% by FY27, as per management (~2% currently).

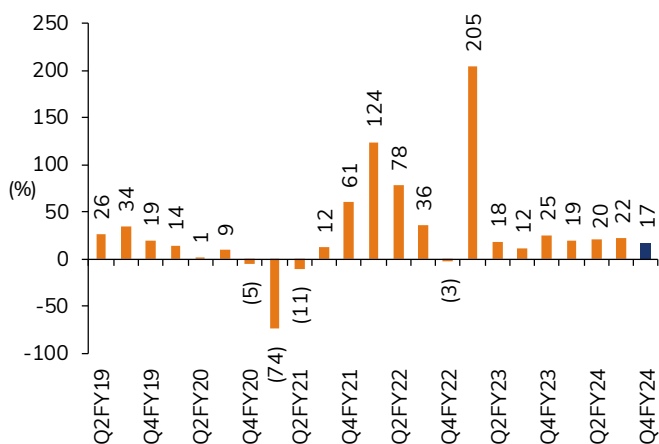
Overall ambition of ~30–40% growth with EBIT breakeven

In terms of volumes, it has ambitions of increasing volumes by ~3x/~2x/~3x/~3x in wearables/fragrances/women's bags/Taneira by FY27.

Valuation and risk

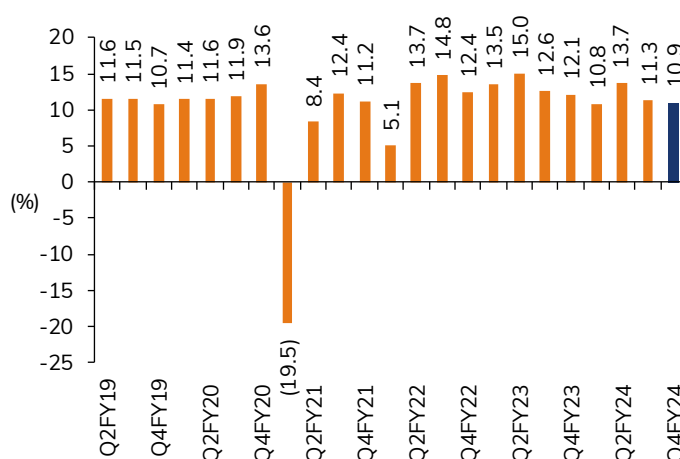
Our earnings estimates are largely unchanged, by modelling revenue / EBITDA / PAT CAGR of 20 / 21 / 20 (%) over FY24-26E. Recommend **HOLD** with a DCF-based revised target price of INR 3,400 (vs INR 3,600 previously). Key upside risk is gold price volatility leading to lower competitive activity. Key downside risk is worsening of macro environment leading to demand slowdown.

Exhibit 1: Revenue growth



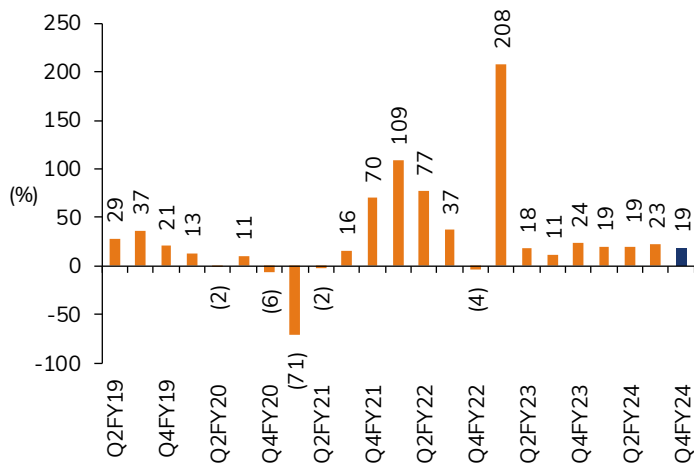
Source: Company data, I-Sec research

Exhibit 2: EBITDA margin



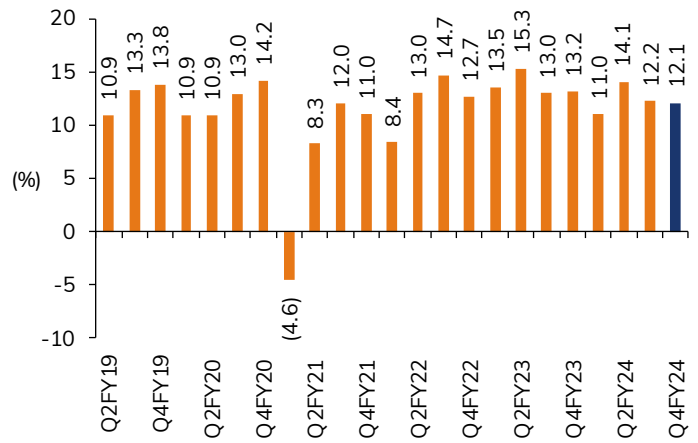
Source: Company data, I-Sec research

Exhibit 3: Jewellery revenue growth



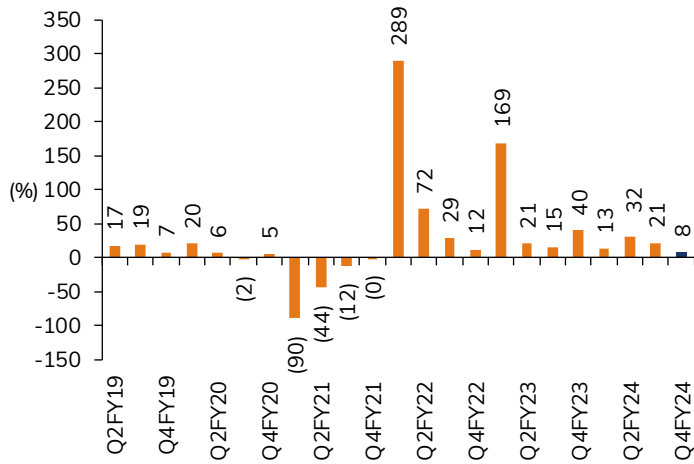
Source: Company data, I-Sec research

Exhibit 4: Jewellery EBIT margin



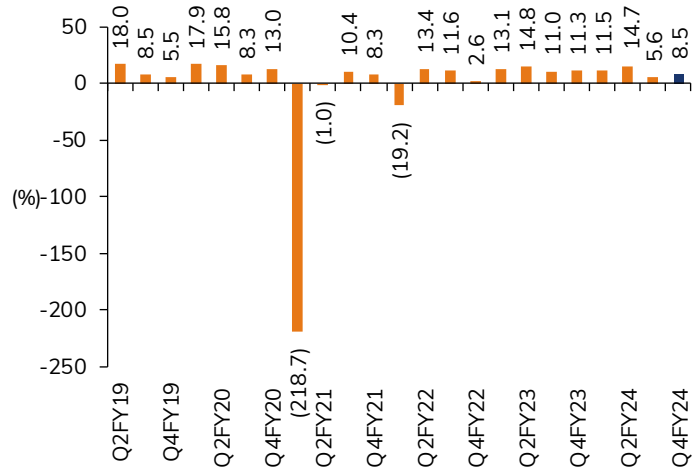
Source: Company data, I-Sec research

Exhibit 5: Watches revenue growth



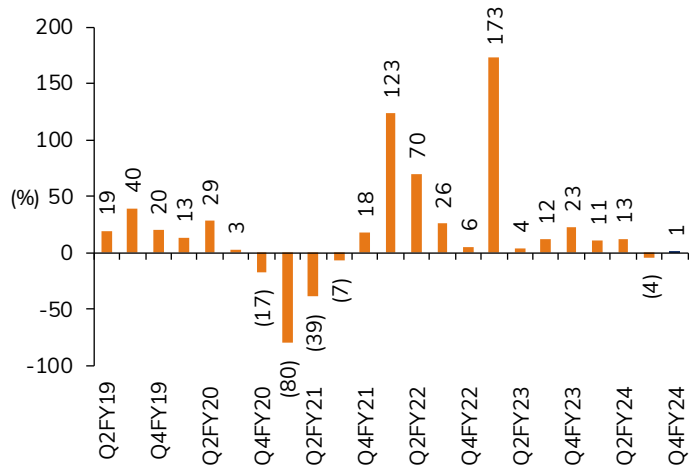
Source: Company data, I-Sec research

Exhibit 6: Watches EBIT margin



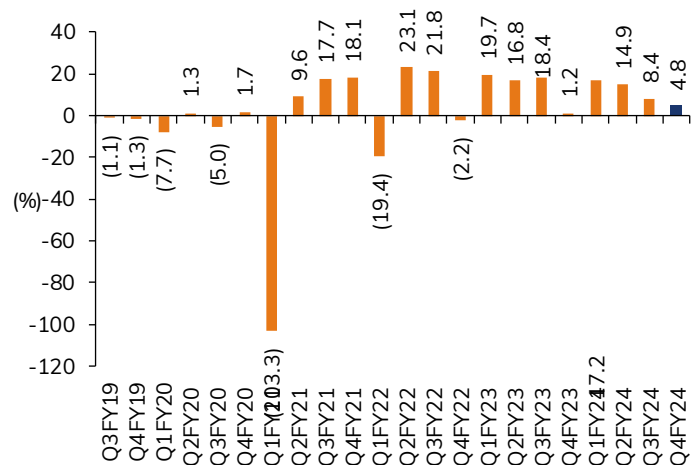
Source: Company data, I-Sec research

Exhibit 7: Eyewear revenue growth



Source: Company data, I-Sec research

Exhibit 8: Eyewear EBIT margin



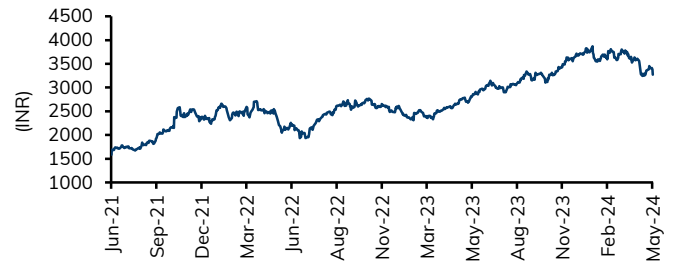
Source: Company data, I-Sec research

Exhibit 9: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	52.9	52.9	52.9
Institutional investors	29.2	29.3	29.5
MFs and other	5.5	5.5	5.5
FIs/ Banks	0.0	0.0	0.0
Insurance Cos.	3.9	3.7	3.8
FII	19.7	20.1	20.2
Others	17.9	17.8	17.6

Source: Bloomberg, I-Sec research

Exhibit 10: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 11: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	3,83,670	4,69,680	5,68,219	6,80,404
Operating Expenses	3,34,880	4,16,760	5,04,165	6,02,460
EBITDA	48,790	52,920	64,054	77,944
EBITDA Margin (%)	12.7	11.3	11.3	11.5
Depreciation & Amortization	4,410	5,840	6,788	7,743
EBIT	44,380	47,080	57,266	70,202
Interest expenditure	3,000	6,190	9,654	9,363
Other Non-operating Income	3,080	5,330	5,244	6,095
Recurring PBT	44,460	46,220	52,855	66,934
Profit / (Loss) from Associates	10	-	-	-
Less: Taxes	11,730	11,530	13,304	16,847
PAT	32,730	34,690	39,552	50,087
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	32,740	34,690	39,552	50,087
Net Income (Adjusted)	32,740	34,690	39,552	50,087

Source Company data, I-Sec research

Exhibit 12: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	2,03,210	2,40,930	2,97,637	3,63,384
of which cash & cash eqv.	13,430	15,260	11,824	21,141
Total Current Liabilities & Provisions	1,07,300	1,16,130	1,41,058	1,68,696
Net Current Assets	95,910	1,24,800	1,56,579	1,94,688
Investments	25,150	23,450	23,450	23,450
Net Fixed Assets	13,440	17,380	16,274	14,655
ROU Assets	12,850	15,430	15,430	15,430
Capital Work-in-Progress	1,330	880	880	880
Total Intangible Assets	3,800	4,370	4,370	4,370
Long Term Loans & Advances	8,140	10,570	10,570	10,570
Deferred Tax assets	1,580	1,870	1,870	1,870
Total Assets	1,62,200	1,98,750	2,29,424	2,65,913
Liabilities				
Borrowings	21,950	78,380	78,380	75,880
Deferred Tax Liability	30	30	30	30
Provisions	2,400	2,740	2,740	2,740
Other Liabilities	50	180	180	180
Equity Share Capital	890	890	890	890
Reserves & Surplus	1,18,150	93,040	1,23,714	1,62,703
Total Net Worth	1,19,040	93,930	1,24,604	1,63,593
Minority Interest	-	-	-	-
Total Liabilities	1,62,200	1,98,750	2,29,424	2,65,913

Source Company data, I-Sec research

Exhibit 13: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	1,02,070	99,050	1,29,320	1,01,300
% growth (YoY)	18.6	20.1	22.5	17.1
EBITDA	11,030	13,550	14,570	11,090
Margin %	10.8	13.7	11.3	10.9
Other Income	990	1,220	1,390	1,500
Extraordinary	-	-	-	-
Adjusted Net Profit	7,770	9,400	10,400	7,860

Source Company data, I-Sec research

Exhibit 14: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	13,700	16,950	15,534	32,306
Working Capital Changes	(24,130)	(25,360)	(35,216)	(28,791)
Capital Commitments	(4,320)	(6,910)	(5,682)	(6,124)
Free Cashflow	9,380	10,040	9,852	26,183
Other investing cashflow	(13,790)	5,020	5,244	6,095
Cashflow from Investing Activities	(18,110)	(1,890)	(438)	(28)
Issue of Share Capital	-	(51,330)	-	-
Interest Cost	(3,000)	(6,190)	(9,654)	(9,363)
Inc (Dec) in Borrowings	16,770	56,290	-	(2,500)
Dividend paid	(6,660)	(8,880)	(8,878)	(11,098)
Others	(2,540)	(3,180)	-	-
Cash flow from Financing Activities	4,570	(13,290)	(18,532)	(22,960)
Chg. in Cash & Bank balance	160	1,770	(3,436)	9,318
Closing cash & balance	2,350	4,090	714	10,031

Source Company data, I-Sec research

Exhibit 15: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	36.9	39.1	44.6	56.4
Adjusted EPS (Diluted)	36.9	39.1	44.6	56.4
Cash EPS	41.8	45.7	52.2	65.1
Dividend per share (DPS)	10.0	-	10.0	12.5
Book Value per share (BV)	134.1	105.8	140.4	184.3
Dividend Payout (%)	27.1	-	22.4	22.2
Growth (%)				
Net Sales	33.2	22.4	21.0	19.7
EBITDA	46.0	8.5	21.0	21.7
EPS (INR)	45.4	6.0	14.0	26.6
Valuation Ratios (x)				
P/E	87.9	83.0	72.8	57.5
P/CEPS	77.5	71.0	62.1	49.8
P/BV	24.2	30.6	23.1	17.6
EV / EBITDA	59.2	55.6	46.0	37.6
P / Sales	7.5	6.1	5.1	4.2
Dividend Yield (%)	0.3	-	0.3	0.4
Operating Ratios				
Gross Profit Margins (%)	26.6	24.8	23.1	22.9
EBITDA Margins (%)	12.7	11.3	11.3	11.5
Effective Tax Rate (%)	26.4	24.9	25.2	25.2
Net Profit Margins (%)	8.5	7.4	7.0	7.4
Net Debt / Equity (x)	0.1	0.7	0.5	0.3
Net Debt / EBITDA (x)	0.2	1.2	1.0	0.7
Fixed Asset Turnover (x)	18.6	17.6	16.5	16.8
Working Capital Days	102	105	112	111
Inventory Turnover Days	180	163	173	172
Receivables Days	7	9	7	7
Payables Days	13	12	12	12
Profitability Ratios				
RoCE (%)	27.3	22.6	22.8	23.7
RoE (%)	30.8	32.6	36.2	34.8
RoIC (%)	35.9	29.9	28.4	29.0

Source Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, Manoj Menon, MBA, CMA; Varun Singh, MBA; Karan Bhuvania, MBA; Akshay Krishnan, MBA; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager, Research Analyst and Alternative Investment Fund. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities AIF Trust's SEBI Registration number is IN/AIF3/23-24/1292 ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report.

Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, E-mail Address : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Prabodh Avadhoot](mailto:Mr.Prabodh.Avadhoot) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
