

06 November 2024

India | Equity Research | Q2FY25 results review

Titan Company

Consumer Staples & Discretionary

Relative underperformance to continue; Margin guidance cut

Titan's domestic jewellery business revenue growth had a strong revival (~25% YoY; LFL: 15% YoY) driven by improved industry demand conditions (though likely to underperform peers) for gold jewellery due to customs duty cut while higher-value studded segment demand was under pressure due to global price uncertainty, leading to ~300bps (~30%) reduction in studded share. This led to a material decline of ~270bps in normalised jewellery EBIT margin with management revising its guidance downwards to 11-11.5% (vs 11.5-12.5% earlier). Further, current phase of formalisation gains accruing more to competition (availability of growth capital) will likely continue to keep a check on revenue growth performance. Global price uncertainty in high-value studded segment is another headwind. We like management's preference of growth over margins in the near term. That said, both growth and margin are important for its valuations. **HOLD**.

Strong revival in revenue growth led by customs duty reduction

Titan's Q2FY25 revenue / GP / EBITDA / recurring PAT growth (YoY) were 24 / -2 / -16 / -25 (%). Jewellery revenue grew by ~27% YoY driven by 15% LFL growth in secondary as customs duty cut led to surge in demand for gold jewellery with correction in prices, while large-size solitaire were impacted due to price uncertainty; overall studded segment had a decent growth (12% YoY).

Other key highlights: (1) Buyer growth during the quarter was ~12% YoY. (2) ASP grew 10% YoY. (3) Studded revenue share dipped by 300bps YoY to 30%. (4) CaratLane continues to deliver healthy growth trends with revenue of INR8.3bn (+28% YoY) with 7% EBIT margin.

Retail expansion continues to be healthy with 20% YoY growth. It added 11 stores in Tanishq (EOP 502), 12 Mia stores (EOP:209), 23 CaratLane stores (EOP: 286) and 1 Zoya stores (EOP: 12).

Revenue from watches grew 19% YoY led by outperformance in the analog segment (26% YoY, ~88% contribution). In analog watches, Fastrack brand reported ~18% YoY growth while Titan brand grew 32% YoY and Helios grew 43% YoY (L2L retail growth of 28%). Titan World reported 15% YoY secondary retail revenue growth led by 11% YoY L2L. Wearable segment underperformed: 13% decline in revenue growth impacted by continuously falling average selling price. It added 34 new stores in 2QFY25 taking the total EBO count to 1,171.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	3,83,670	4,69,680	5,59,731	6,57,827
EBITDA	48,790	52,920	53,676	72,307
EBITDA Margin (%)	12.7	11.3	9.6	11.0
Net Profit	32,740	34,690	30,716	44,330
EPS (INR)	36.9	39.1	34.6	49.9
EPS % Chg YoY	45.4	6.0	(11.5)	44.3
P/E (x)	87.6	82.7	93.4	64.7
EV/EBITDA (x)	59.0	55.4	54.5	39.8
RoCE (%)	27.3	22.6	18.9	23.6
RoE (%)	30.8	32.6	29.3	33.5

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Market Data

Market Cap (INR)	2,868bn
Market Cap (USD)	34,100mn
Bloomberg Code	TTAN IN
Reuters Code	TITN.BO
52-week Range (INR)	3,887 /3,056
Free Float (%)	47.0
ADTV-3M (mn) (USD)	49.6

Price Performance (%)	3m	6m	12m
Absolute	(4.3)	(8.6)	(1.4)
Relative to Sensex	(5.2)	(16.2)	(24.8)

ESG Score	2023	2024	Change
ESG score	74.0	69.4	(4.6)
Environment	56.9	56.9	0.0
Social	75.3	56.6	(18.7)
Governance	81.0	84.9	3.9

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	1.4	1.4
EBITDA	(12.8)	(1.3)
EPS	(22.7)	(9.6)

Previous Reports

04-08-2024: [Q1FY25 results review](#)

02-06-2024: [Company Update](#)

Eyewear business revenue grew 7% YoY led by double-digit volume growth in frames and lenses, while sunglasses witnessed pressure due to seasonality. Titan Eye Plus secondary sales reported 3% YoY growth L2L. Revenue from international brand grew ~53% YoY. It has added 3 net new stores during the quarter (EOP: 910 stores).

Jewellery EBIT margin guidance revised downwards

Jewellery segment normalised EBIT margin declined ~270bps YoY to 11.4% due to inferior mix: 1) studded share declined ~300bps YoY and 2) lower demand in solitaire segment. Reported EBIT margin declined by 480bps YoY to 8.3% in due to one-off impact on realisations due to customs duty reduction (INR 2.9bn). EBIT margin has improved marginally by 20bps YoY in Watches segment but dipped sharply by 300 bps YoY in Eyecare.

Management has revised its Jewellery EBITDA margin guidance downwards to 11-11.5% (normalized) for FY25 vs its previous guidance of 11.5-12.5%. Though it expects margin to recover to its earlier guidance of 11.5-12.5% post FY25, it awaits couple of quarters to provide a guidance post FY25. As per management, this is largely due to inferior mix. It further highlighted one-time impact of ~INR 2.8bn due to cut in customs duty in Q3FY25.

Valuation and risks

We have cut our earnings estimates by ~23%/~10% for FY25E/26E largely due to lower EBIT margin expectations in jewellery segment; modelling revenue / EBITDA / PAT CAGR of 18 / 17 / 13 (%) over FY24-26E. Maintain HOLD with a DCF-based revised target price of INR 3,100 (vs INR 3,500 previously). Key upside risk is lower competitive activity. Key downside risk is worsening of macro environment leading to demand slowdown.

Exhibit 1: Q2FY25 results review (Standalone – Reported)

(INR mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	1HFY25	1HFY24	YoY (%)
Net Revenues	1,23,310	99,050	24	1,11,450	11	2,34,760	2,01,120	17
COGS	(97,660)	(72,950)	34	(86,200)	13	(1,83,850)	(1,51,630)	21
Gross profit	25,650	26,100	(2)	25,250	2	50,910	49,490	3
Staff cost	(4,100)	(3,740)	10	(4,160)	(1)	(8,260)	(7,440)	11
A&SP	(2,500)	(2,050)	22	(2,020)	24	(4,520)	(4,120)	10
Other opex	(7,720)	(6,760)	14	(6,960)	11	(14,680)	(13,360)	10
Total opex	(14,320)	(12,550)	14	(13,140)	9	(27,460)	(24,920)	10
EBITDA	11,330	13,550	(16)	12,110	(6)	23,450	24,570	(5)
Other income	1,270	1,220	4	1,180	8	2,450	2,210	11
Finance cost	(1,950)	(1,060)	84	(1,820)	7	(3,770)	(1,850)	104
D&A	(1,320)	(1,100)	20	(1,260)	5	(2,580)	(2,090)	23
PBT	9,330	12,610	(26)	10,210	(9)	19,550	22,840	(14)
Tax	(2,280)	(3,210)	(29)	(2,510)	(9)	(4,790)	(5,680)	(16)
Recurring PAT	7,050	9,400	(25)	7,700	(8)	14,760	17,160	(14)
Extraordinary items	-	-	-	-	-	-	-	-
Net profit (reported)	7,050	9,400	(25)	7,700	(8)	14,760	17,160	(14)
EPS	7.9	10.6	(25)	8.7	(8)	16.6	19.3	(14)
Costs as a % of sales								
COGS	79.2	73.6	554 bps	77.3	185 bps	78.3	75.4	292 bps
Gross margin (%)	20.8	26.4	-555 bps	22.7	-186 bps	21.7	24.6	-293 bps
Staff cost	3.3	3.8	-46 bps	3.7	-41 bps	3.5	3.7	-19 bps
A&SP	2.0	2.1	-5 bps	1.8	21 bps	1.9	2.0	-13 bps
Other opex	6.3	6.8	-57 bps	6.2	1 bps	6.3	6.6	-39 bps
EBITDA margin (%)	9.2	13.7	-450 bps	10.9	-168 bps	10.0	12.2	-223 bps
Income tax rate (%)	24.4	25.5	-102 bps	24.6	-15 bps	24.5	24.9	-37 bps

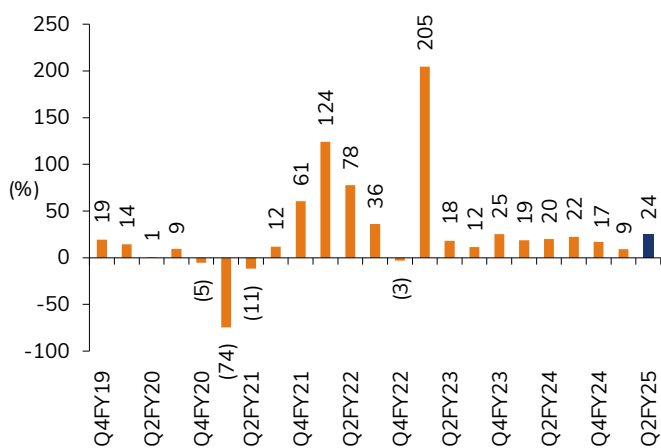
Source: Company data, I-Sec research

Exhibit 2: Q2FY25 segment performance (Reported)

(INR mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	1HFY25	1HFY24	YoY (%)
Revenues								
Jewellery	1,07,630	85,750	26	98,790	9	2,06,420	1,76,450	17
Watches	13,010	10,920	19	10,210	27	23,220	19,820	17
Eyewear	2,010	1,880	7	2,090	(4)	4,100	3,910	5
Others/ Corporate	1,930	1,720	12	1,540	25	3,470	3,150	10
Total Standalone	1,24,580	1,00,270	24	1,12,630	11	2,37,210	2,03,330	17
Bullion Sales	9,960	18,160	(45)	10,780	(8)	19,960	27,570	(28)
CaratLane	8,290	6,480	28	7,540	10	15,820	12,870	23
TEAL	1,960	1,250	57	1,970	(1)	3,930	1,860	111
Others/ Consol Adj	1,780	370	381	940	89	3,500	1,010	247
Total Consolidated	1,46,570	1,26,530	16	1,33,860	9	2,80,420	2,46,640	14
EBIT								
Jewellery	9,320	12,060	(23)	11,030	(16)	20,350	22,050	(8)
Watches	1,940	1,600	21	1,150	69	3,090	2,620	18
Eyewear	240	280	(14)	200	20	440	630	(30)
Others/ Corporate	(220)	(270)	(19)	(350)	(37)	(570)	(600)	(5)
Total Standalone	11,280	13,670	(17)	12,030	(6)	23,310	24,700	(6)
CaratLane	580	260	123	380	53	960	610	57
TEAL	250	200	25	110	127	360	90	300
Others/ Consol Adj	(230)	(210)	10	(490)	(53)	(730)	(370)	97
Total Consolidated	11,880	13,920	(15)	12,030	(1)	23,900	25,030	(5)
EBIT margin (%)								
Jewellery	8.7	14.1	-541 bps	11.2	-251 bps	9.9	12.5	-264 bps
Watches	14.9	14.7	25 bps	11.3	364 bps	13.3	13.2	8 bps
Eyewear	11.9	14.9	-296 bps	9.6	237 bps	10.7	16.1	-539 bps
Total Standalone	9.1	13.6	-458 bps	10.7	-163 bps	9.8	12.1	-233 bps
CaratLane								
TEAL	7.0	4.0	298 bps	5.0	195 bps	6.1	4.7	132 bps
Total Consolidated	12.8	16.0	-325 bps	5.6	717 bps	9.2	4.8	432 bps

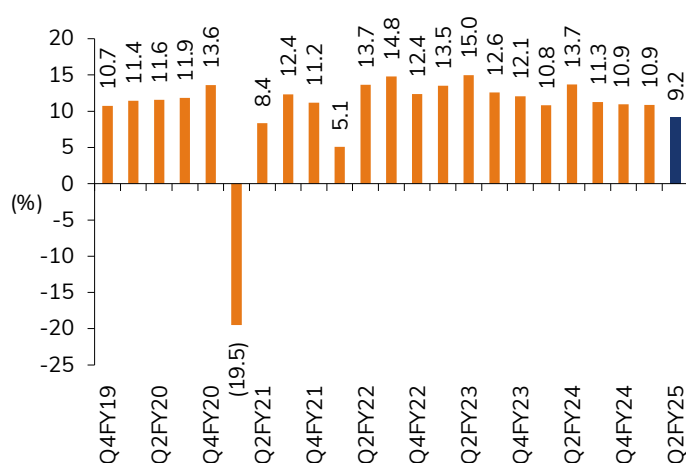
Source: Company data, I-Sec research

Exhibit 3: Revenue growth



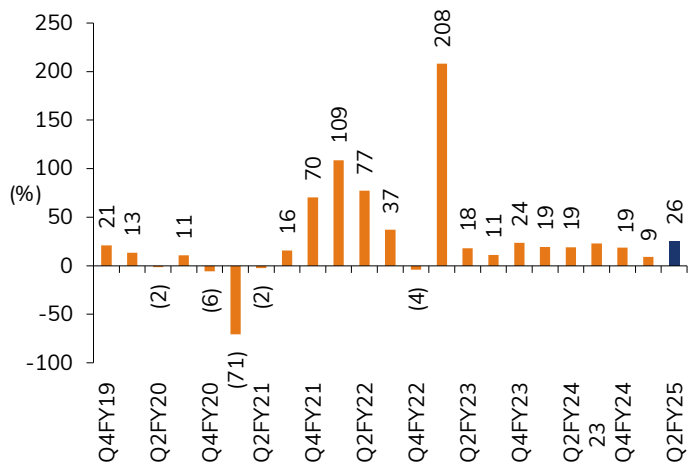
Source: Company data, I-Sec research

Exhibit 4: EBITDA margin



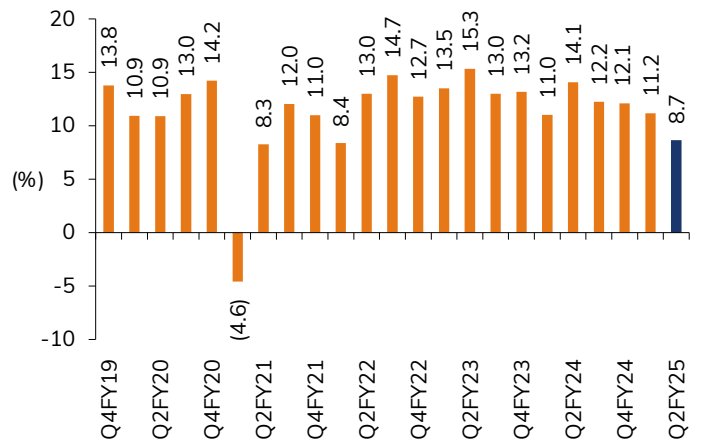
Source: Company data, I-Sec research

Exhibit 5: Jewellery revenue growth



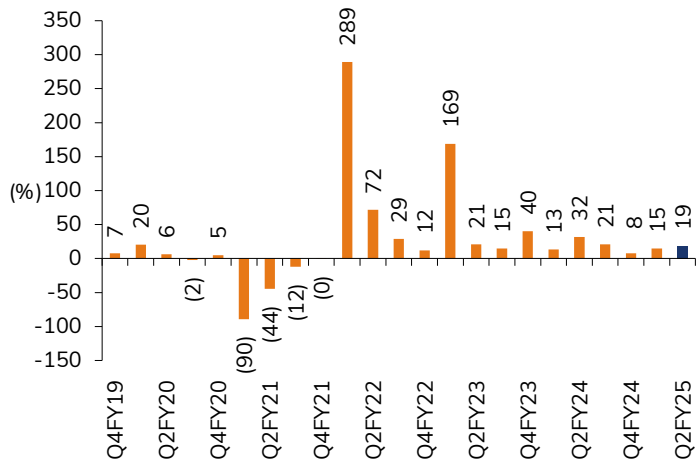
Source: Company data, I-Sec research

Exhibit 6: Jewellery EBIT margin



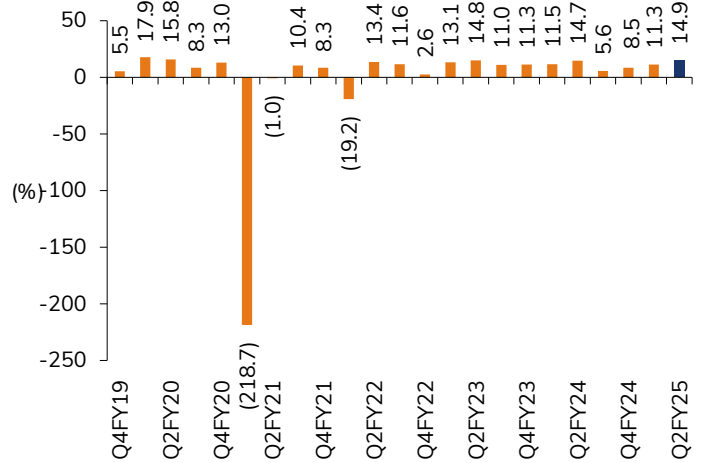
Source: Company data, I-Sec research

Exhibit 7: Watches revenue growth



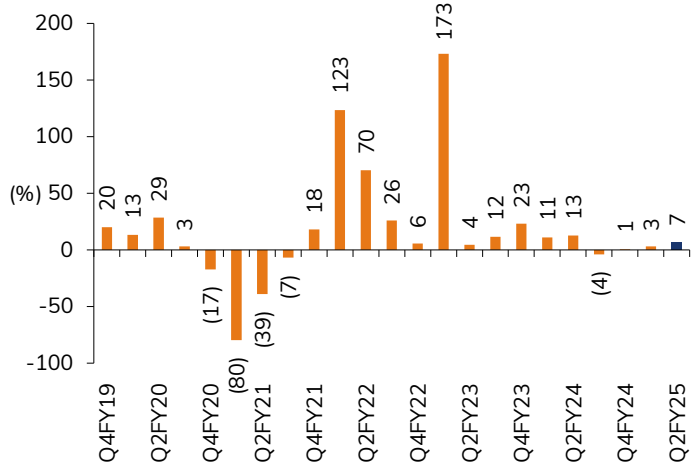
Source: Company data, I-Sec research

Exhibit 8: Watches EBIT margin



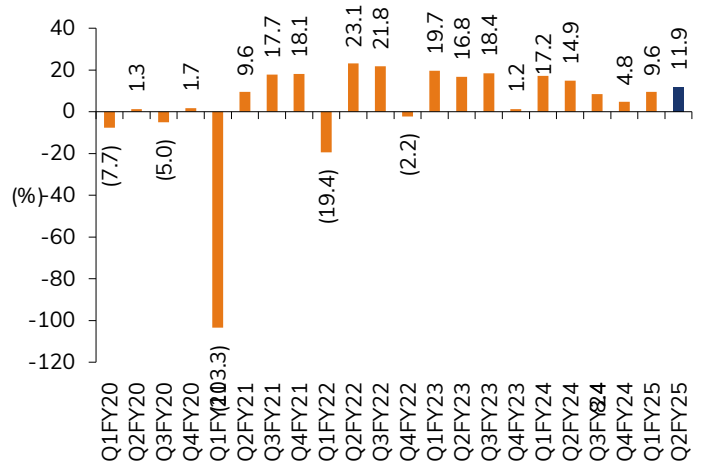
Source: Company data, I-Sec research

Exhibit 9: Eyewear revenue growth



Source: Company data, I-Sec research

Exhibit 10: Eyewear EBIT margin



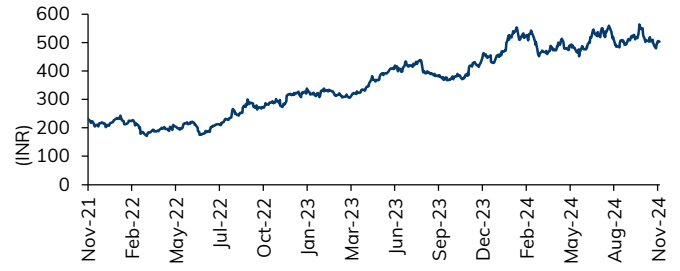
Source: Company data, I-Sec research

Exhibit 11: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	52.9	52.9	52.9
Institutional investors	29.5	29.1	29.7
MFs and other	6.5	6.7	6.2
FIs/ Banks	0.0	0.1	1.0
Insurance Cos.	3.8	3.9	4.2
FIIIs	19.2	18.4	18.3
Others	17.6	18.0	17.4

Source: Bloomberg, I-Sec research

Exhibit 12: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 13: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	3,83,670	4,69,680	5,59,731	6,57,827
Operating Expenses	3,34,880	4,16,760	5,06,055	5,85,520
EBITDA	48,790	52,920	53,676	72,307
EBITDA Margin (%)	12.7	11.3	9.6	11.0
Depreciation & Amortization	4,410	5,840	7,095	8,499
EBIT	44,380	47,080	46,580	63,808
Interest expenditure	3,000	6,190	11,572	11,364
Other Non-operating Income	3,080	5,330	5,613	6,180
Recurring PBT	44,460	46,220	40,621	58,624
Profit / (Loss) from Associates	10	-	-	-
Less: Taxes	11,730	11,530	9,905	14,295
PAT	32,730	34,690	30,716	44,330
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	32,740	34,690	30,716	44,330
Net Income (Adjusted)	32,740	34,690	30,716	44,330

Source Company data, I-Sec research

Exhibit 14: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	2,03,210	2,40,930	3,22,703	3,62,819
of which cash & cash eqv.	13,430	15,260	27,773	46,749
Total Current Liabilities & Provisions	1,07,300	1,16,130	1,68,327	1,97,632
Net Current Assets	95,910	1,24,800	1,54,376	1,65,187
Investments	25,150	23,450	23,450	23,450
Net Fixed Assets	13,440	17,380	15,882	13,304
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	2,26,828	2,35,061
Liabilities				
Borrowings	21,950	78,380	84,620	59,620
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	1,14,878	1,48,111
Total Net Worth	1,19,040	93,930	1,15,768	1,49,001
Minority Interest	-	-	-	-
Total Liabilities	1,62,200	1,98,750	2,26,828	2,35,061

Source Company data, I-Sec research

Exhibit 15: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	1,29,320	1,01,300	1,11,450	1,23,310
% growth (YOY)	22.5	17.1	9.2	24.5
EBITDA	14,570	11,090	12,110	11,330
Margin %	11.3	10.9	10.9	9.2
Other Income	1,390	1,500	1,180	1,270
Extraordinaries	-	-	-	-
Adjusted Net Profit	10,400	7,860	7,700	7,050

Source Company data, I-Sec research

Exhibit 16: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	13,700	16,950	26,708	66,177
Working Capital Changes	(24,130)	(25,360)	(17,063)	8,165
Capital Commitments	(4,320)	(6,910)	(5,597)	(5,920)
Free Cashflow	9,380	10,040	21,111	60,257
Other investing cashflow	(13,790)	5,020	5,613	6,180
Cashflow from Investing Activities	(18,110)	(1,890)	15	259
Issue of Share Capital	-	(51,330)	-	-
Interest Cost	(3,000)	(6,190)	(11,572)	(11,364)
Inc (Dec) in Borrowings	16,770	56,290	6,240	(25,000)
Dividend paid	(6,660)	(8,880)	(8,878)	(11,098)
Others	(2,540)	(3,180)	-	-
Cash flow from Financing Activities	4,570	(13,290)	(14,210)	(47,461)
Chg. in Cash & Bank balance	160	1,770	12,513	18,976
Closing cash & balance	2,350	4,090	16,663	35,639

Source Company data, I-Sec research

Exhibit 17: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	36.9	39.1	34.6	49.9
Adjusted EPS (Diluted)	36.9	39.1	34.6	49.9
Cash EPS	41.8	45.7	42.6	59.5
Dividend per share (DPS)	10.0	-	10.0	12.5
Book Value per share (BV)	134.1	105.8	130.4	167.8
Dividend Payout (%)	27.1	-	28.9	25.0
Growth (%)				
Net Sales	33.2	22.4	19.2	17.5
EBITDA	46.0	8.5	1.4	34.7
EPS (INR)	45.4	6.0	(11.5)	44.3
Valuation Ratios (x)				
P/E	87.6	82.7	93.4	64.7
P/CEPS	77.2	70.8	75.8	54.3
P/BV	24.1	30.5	24.8	19.2
EV / EBITDA	59.0	55.4	54.5	39.8
P / Sales	7.5	6.1	5.1	4.4
Dividend Yield (%)	0.3	-	0.3	0.4
Operating Ratios				
Gross Profit Margins (%)	26.6	24.8	21.9	23.4
EBITDA Margins (%)	12.7	11.3	9.6	11.0
Effective Tax Rate (%)	26.4	24.9	24.4	24.4
Net Profit Margins (%)	8.5	7.4	5.5	6.7
Net Debt / Equity (x)	0.1	0.7	0.5	0.1
Net Debt / EBITDA (x)	0.2	1.2	1.1	0.2
Fixed Asset Turnover (x)	18.6	19.1	18.6	18.3
Working Capital Days	102	105	98	77
Inventory Turnover Days	180	163	179	160
Receivables Days	7	9	9	9
Payables Days	13	12	12	12
Profitability Ratios				
RoCE (%)	27.3	22.6	18.9	23.6
RoE (%)	30.8	32.6	29.3	33.5
RoIC (%)	35.9	29.9	24.9	33.6

Source Company data, I-Sec research

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