



# ALPHA

21 JUN 2022

## Titan Company Ltd. – Three Decade Old Company

Market Data	
CMP	Rs. 2067
Date	21-Jun-22
Target Price	Rs. 2430
Upside Potential	18.00%
52 Week High/Low	2768/1663
Sector	Jewellery
Rating	Buy

Titan Company Ltd is among India's most respected lifestyle companies. Titan Company Limited (Titan), formerly Titan Industries Limited, was incorporated in 1984 as a joint venture (JV) between the Tata Group and Tamil Nadu Industrial Development Corporation Limited (TIDCO). In 1994, Titan diversified into Jewellery (Tanishq) and subsequently into EyeCare. At present, the Tata Group and TIDCO hold 25.02% and 27.88% shares, respectively, in Titan. The rest is held by institutional investors and the public. Titan is a market leader in the domestic branded jewellery market (with Tanishq, Caratlane, Zoya and Mia brands) and in the domestic wristwatch segment (with brands such as Titan, Sonata, Fastrack and Xylys). Titan is widely known for transforming the watch and jewellery industry in India and for shaping India's retail market by pioneering experiential retail.





**Products & Services:** The company has a presence in a wide range of segments namely Fashion Jewellery, watches & wearables, Eyewear, fragrances, Indian dresswear and others.

**Jewellery** – Brands such as Tanishq, Caratlane, Zoya and Mia comes under jewellery segment.

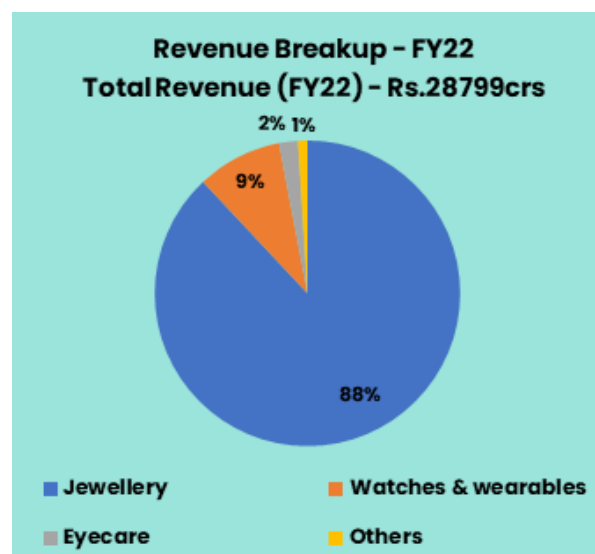
**Watches & Wearables** – Titan, Raga, Titan clock, Fastrack, Sonata, Zoop, Octane, Helios, Nebula, Xyllys, Favre-Leuba and SF comes under Watches & wearables segment.

**Eyecare** – Titan Eyeplus comes under the Eyecare segment.

**Others** – Fragrances segment consist of Titan Skinn and Fastrack. Newly launched premium traditional clothing segment has Taneira.

SHP	Mar - 22 (%)	Dec - 21 (%)	Change
Promoters	52.90	52.90	0.00
FPI	18.40	18.55	-0.15
DII	10.21	10.30	-0.09
Public & Others	18.49	18.25	0.24
Pledged	0.00	0.00	0.00

**Subsidiaries:** As on 31st Mar 2022, the company has a total of 6 subsidiaries, 4 Step down subsidiaries and 1 Associate company. The key subsidiaries are Titan Engineering & Automation Ltd. (TEAL) and CaratLane Trading Pvt. Ltd.





## Key Rationale

- **Strong Market Position** – Titan is India’s largest jewellery retailer, with 582 exclusive stores (including Tanishq, Zoya, Mia and Caratlane brands) spread all over the country. It also has three jewellery manufacturing sites and four karigar centres, which help the company capture value across the supply chain. The same is reflected in Titan’s strong operating margins and healthy revenue increase in the jewellery segment with a CAGR of 18% between FY2018 and FY2022, aided by an improvement in the market share as well as addition to the store network. Titan is a dominant player in the domestic watch market, with over 60% market share in the organised segment. Wide distribution and service network, diversified product coverage in terms of price points and styles, and continued expansion of store network and product portfolio with launch of new designs are expected to support Titan’s market leadership position in the jewellery and watch segments. Titan also has leadership position in the eyewear business. These strengths have supported the company in achieving healthy revenue growth and operating efficiencies, as reflected in its strong operating margins.
- **Store Network** – The overall stores of Titan company stand at 2178 covering 2.8 mn Sq. Ft. The net additions for FY22 stands at 269 stores covering 283K Sq. Ft. The store count for Tanishq, Mia, Zoya and CaratLane increased at a 4-Year CAGR of 11%, 9%, 14% and 40% in the Jewellery Segment. The store count for WOT, Fastrack and Helios increased at a 4-Year CAGR of 3%, 0% and 18% in the Watches and Wearables Segment. The Eyecare segment (Titan Eye plus) store count increased at a 4-year CAGR of 10%.
- **FY22** – Titan delivered solid growth of 33.1% YoY to Rs. 28,799 crs on the back of strong Q3 and slightly offset by QoQ decline in Q4 revenue by 22.3% (+4.0% YoY) due to Omicron induced waves, gold price volatility and a fragile geo-political situation. EBITDA margins for FY22 expanded by 364bps YoY to 12% which led to a growth in EBITDA of 94% YoY to Rs.3341 crs. PAT increased 125.7% YoY to Rs. 2,173 crs.
- **Financial Performance** – The company has generated a Revenue and PAT CAGR of 17% and 23% over the period of FY18-22. Titan has consistently displayed its ability to gain market share amid a tough industry scenario owing to its robust balance sheet (cash & investments worth Rs.1500+ crs) and strong brand patronage.

### Margins - FY22

Gross	25%
EBITDA	12%
PAT	8%



## Ratios - FY22

ROE	23%
ROCE	19%
Div. Yield	0.38%
PE Ratio	84.00
Face Value	1.00
EPS	Rs. 24.48

## Industry Analysis

India's gems and jewellery export sector—which is one of the largest in the world—contributed ~27% to the global jewellery consumption in 2019. India's gems and jewellery market size was at US\$ 78.50 billion in FY21. As of February 2021, India's gold and diamond trade contributed ~7.5% to India's Gross Domestic Product (GDP) and 14% to India's total merchandise exports. The gems and jewellery sector is likely to employ ~8.23 million persons by 2022, from ~5 million in 2020. From April 2021-January 2022, India's overall exports of gems stood at US\$ 32.37 billion, which is a 69.13% growth as compared to same period last year. In January 2022, India's overall gems and jewellery exports grew at 23.66% YoY to US\$ 3.28 billion. The Government of India is aiming at US\$ 70 billion in jewellery export in the next five years (until 2025), up from US\$ 35 billion in 2020.

## Growth Drivers

India's gold demand stood at 797.30 tonnes in 2021 and is expected to be in a range of 800-850 tonnes by 2022. In the fourth quarter of 2021 demand for gold rose by 93% YoY to 265 tonnes from 136 tonnes in 2020.

The Government has reduced custom duty on cut and polished diamond and coloured gemstones from 7.5% to 5% and NIL.

Increasing number of health-conscious people post pandemic resulted in the shift towards smartwatches and smart wearables from traditional watch. IDC's report mentioned that India's wearable market grew by 93.5% year over year (YoY) in the third quarter (July to September 2021).



## Peer Analysis

**Competitors:** Kalyan Jewellers, Thangamayil Jewellery, etc.

It is clear that Titan is fundamentally strong than its peers in terms of Return ratios and debt status. The strong fundamentals justify the high valuation. In the below peers, Thangamayil is a regional player with its strong presence in the south India and Kalyan Jewellers is close to Titan in terms of Pan Indian presence.

Company	CMP	Mcap.	ROE	ROCE	D/E	P/E	EPS
Titan	2067	183567	23.00%	19.00%	0.78	84	24.48
Kalyan	57	5881	7.00%	9.00%	1.28	26	2.18
Thangamayil	967	1326	12.00%	11.00%	1.15	34	28.09

## Outlook

Titan has drawn up an ambitious plan to expand the scope of its business segments. In jewellery, the company pointed to huge headroom to grow in a geographically fragmented market. The company will "chase multiple segments" and drive-up share in weddings and solitaires. It plans to double the store count for its low-priced jewellery brand Mia by FY25 from the current 275 to 550 with revenues topping Rs.2000 crs in the same period. It plans to grow its ethic wear business, which at present operates under the saree brand Taneira. The company is eyeing 125 stores by FY27, along with an omni-channel presence. It aims to achieve more than Rs.1000 crs sales by targeting young saree-wearing consumers. The company plans to expand the women's bags business under its popular watch brand Fastrack to Rs.1000 crs by FY27. It aims to sell 3.5 million pieces in the same period. In its watches and wearables business, the company plans to achieve Rs.10000 crs in business by 2025-26. About 70% of this will come from the watches segment with the remaining from wearables.



## Valuation

Titan has, over the years, withstood challenges and emerged as a resilient player. We believe Titan is a structural growth story and appears to be a key beneficiary of the unorganised to organised shift in the Indian jewellery mark. At CMP, the stock trades at 55x of FY24E EPS. We recommend a BUY rating in the stock with the target price (TP) of Rs.2430, 65x FY24E EPS.

## Risks

- **Competitive Risk** – Alternatives for time-keeping devices such as mobile phones along with the discounts by competitors and online retailers may potentially constrain revenue growth and margins in the watches segment. While in the jewellery segment, competition from other organised jewellery retailers who are expanding their geographic presence could pose competition to Titan in the long term.
- **Covid Risk** – Any new lockdown rules on account of increasing cases will result in a store shutdown. Closure of stores will directly impact the revenue.
- **Regulatory Risk** – Certain adverse regulatory developments have impacted the domestic gold jewellery industry in the past. Titan will remain exposed to the risks of any such future regulatory actions that may impact its business profile.

Source – Tickertape, Company's Website, BSE Website.

Thanks & Regards

**Abeshk C V**

Equity Research Analyst – Fundamental  
Equity Research Desk





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Our mailing address is:

Uttam Building, Third Floor,

No. 38 & 39, Whites Road, Royapettah, Chennai – 600014