



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

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## Initiating Coverage @ Dalal & Broacha

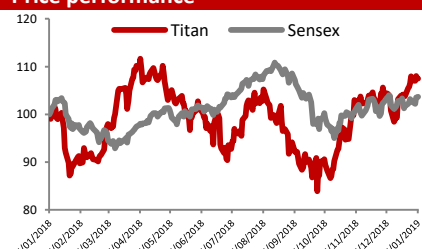
### ACCUMULATE

Current Price	955
52 Week Range	1,006/731
Target Price	1062
Upside	11%

### Key Share Data

Market Cap (Rs.bn)	852.18
Market Cap (US\$ mn)	11975.63
No of o/s shares (mn)	887
Face Value	1
Monthly Avg. vol (BSE+NSE) Nos (in'000)	2846
BSE Code	500114
NSE Code	TITAN
Bloomberg	TTAN IN

### Price performance



% Shareholding	Sep-18	June-18
Promoters	52.91	52.91
Others	47.09	47.09
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

**Indian weddings to keep jewellery demand stable with ~6% CAGR:** On an average it is estimated ~8-10mn weddings happen in India with an average spend of Rs. ~2lac on Bridal Jewellery. Bridal Jewellery account for 55% of domestic jewelry sales (as per world gold council report). Indian domestic bridal jewelry currently at Rs. 2,722bn is expected to grow to Rs. 3,570bn by FY23. Further, by FY23 the industry expects i) 1.4% CAGR in gold volume ii) 3% CAGR in gold realization (last 33 years CAGR has been at 4.09% in USD) and iii) 5.6% CAGR in domestic jewelry. Titan will increase its wedding jewelry share to 50% by FY23 from 35% (of entire Plain Jewellery at 70%) in FY18.

**Tanishq to double its market share to 10% by FY23:** This will be achieved through i) narrowing of making charges in unorganized and organized sector; due to compliance in Hallmarking and GST and ii) Increasing brand presence; Tanishq has guided to open 40-45 stores in FY19, with a target to reach 400 stores in 250 towns by FY23 from 253 stores in 150 towns currently (adding ~150 stores in 100 new towns over FY18-23). This would give ~8% CAGR in stores over FY18-FY23 (assuming new store average area per store ~3972sq ft).

**Brand Value:** In the past year, help Titan with a strong brand name and a strong backing by the "Tata Group" and cement its position as a strong trusted player in the market.

**Gold harvest scheme (GHS):** The scheme was introduced in new avatar (10 instalments +0.75 free) v/s (10installments+1free) earlier and contributes 17% in FY18 V/S 14% in FY17 of total sales. Opportunity is to go up to 25% of sales. It would help to increase ticket size and wallet share.

**Gold Exchange Scheme:** Gold exchange scheme currently at 40% in FY18 targets 50% by FY23. It helps in i) Improving working capital efficiency given the up-selling opportunity (20% SSG in FY18) ii) de-risking its gold sourcing needs.

**Rs. 40 bn market of high value Studded Jewellery to give healthy growth:** Currently as of FY18 it contributes 30% which is expected to contribute 50% in FY23, giving ~11% CAGR over FY18-FY23. The caution in this business is, introduction of synthetic diamond which is not factored in as of now.

**Reducing ticket size in plain jewelry to support sales growth and increase market share:** Women want something which is accessible. The jewelry would become more of an accessory going forward hence price point for daily wear is important. Mia and Cartalane are already into low ticket size jewelry with an average price point of Rs. 20,000. Cartalane will breakeven in FY19, contributing +2% in FY18 and other brands like Mia, Zoya and Aveer to add Rs. 17500mn by FY23.

**Rs.70bn opportunity in prescription eyewear category and the overall target to achieve 10mn customers by FY23 (2.4mn in FY18) with 60mn potential customer:** Improvement in perception of high value eyewear via introduction of products at lower priced points (Rs. 1000-2000 range). Strategy of structured expansion, in-house frame manufacturing, economies of scale shall benefit margins in medium term.

**Rs. 85bn watch market, Titan has ~25% market share overall and ~65% in organized market, overall market to grow at ~7% CAGR by FY21:** Titan manufactures 15mn watches every year. Introduction of smart watches that compete with global brands in lower segments to capture mass population with Fastrack and sonata brand is key for the segment to grow at 11% CAGR by FY21. With huge market share and 10% sales from single e-commerce platform of amazon indicates larger presence and huge demand for the brand.

**Valuation:** Titan being one of its kind branded players in the jewellery industry will enjoy a brand premium. The trust and the loyalty attached with this brand has enhanced post the issues of fraud cases by certain large jewelers.

At CMP of Rs 955 Titan trades at 48.30x FY20e EPS of Rs 19.77, 38.35x its FY21e EPS of Rs 24.9. We recommend investors to **Accumulate** Titan Company Ltd with a target price of Rs 1062 i.e. an upside of ~11% based on our weighted average target price model giving 70% weightage to PE method and 30% weightage to EV/EBITDA. Considering low market penetration of organized players in jewellery industry and high growth expected from Titan, higher than average P/E of peers (37.3x FY21E) of 45x FY21E EPS of Rs. 24.9 is given.

### FINANCIALS

Year	Net Sales	%growth	EBIDTA	OPM%	PAT	%growth	EPS	PE(x)	RoE	RoCE
FY17	132,608.3	17.6	11,555.0	8.7	7,851.0	16.4	8.8	108.0	19%	25%
FY18	161,197.7	21.6	16,446.9	10.2	11,420.9	45.5	12.9	74.2	22%	29%
FY19E	196,159.3	21.7	20,433.4	10.4	13,668.0	19.7	15.4	62.0	23%	31%
FY20E	233,720.5	19.1	26,112.6	11.2	17,582.4	28.6	19.8	48.2	25%	34%
FY21E	278,088.5	19.0	32,620.4	11.7	22,134.0	25.9	24.9	38.3	26%	35%



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### BACKGROUND

Titan started its journey in 1984, as a JV between the TATA Group and Tamil Nadu Industrial Development Corporation (TIDCO). In 1995, the company diversified into jewellery under the brand Tanishq to capitalize on a fragmented market operating with no brands in urban cities. The company has also made its foray into eyewear, launching Fastrack eyewear and sunglasses, as well as prescription eyewear under. Its given ~23% CAGR over FY04-FY18 with highest ever EBIT margin of 10.19% in FY18.

### Areas of business:

**Watches:** Titan started its business in 1984 and today it is 5th largest integrated watch manufacturer.

### Brands- market leader in own space:

1. Titan- mid premium segment,
2. Fastrack- Youth and trendy fashion space
3. Sonata- mass segment
4. Xylys- Premium segment

### Reach and Presence:

- 486 EBO of WoT in 29 cities & 166 Fastrack outlets in 83 cities
- 70 Helios Premium Multi-brand outlets in 33 cities
- Multi-brand outlets: 11,000+ dealers, 223 large formats, Online presence in 31 countries with 2,264 touchpoints.
- Total 722 stores with 570,000mn sqft. (avg. sales per sqft. of Rs. 36,145)
- 2Manufacturing plant, 3 Assembly plants and 3 business units.
- 730 watch care centers in 277 towns

### Capacity:

- Manufactures 15mn watches P.A. , with customer base of 100mn
- 60% domestic market share in organized watch market
- Helios almost doubled its reach during the year, in line with the strong momentum the channel is gathering. The division now handles 7 licensed brands.

**Jewellery:** In 1995, Titan launched its jewellery business. Tanishq being a highly trusted brand is growing profitably with support of mother brand as TATA. Currently with ~5% market share, it has huge opportunity to grow. It has a total of 340 stores and 1.092mn sqft as of H1FY19.

### Brands:

**1) Mia:** A sub-brand of Tanishq offers work-wear jewellery. It has 25 standalone stores in 19 cities with a total space of ~10,000 sqft space as of H1FY19.

**2) Zoya:** A premium studded jewellery for elite class. It has 3 stores with ~10,000 sqft space as of H1FY19.

**3) CaratLane:** A partnership, ecommerce brand. It has 45 showrooms in 15 cities with ~32,000 sqft space as of H1FY19.

- 60%+ revenue growth in FY'18, declining customer acquisition costs and improving margins.
- 5X growth in Transactions in last 5 years, to 100,000+ transactions per annum.
- Future growth opportunity in expanding to US market, Silver Business and Gifting.

**4) Tanishq:** Flagship brand. It has 267 showrooms in 167 cities with ~1.04mn sqft space. Saw 18% sales growth in H1FY19.



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### Capacity:

- 4 manufacturing facilities.
- 15 Karigar center's with 720 karigars of which 4 Karigar center is to nurture artisans and craftsmen while ensuring quality.

**Eyewear:** Started its journey in 2007, Titan is now India's largest optical retail chain and sells sunglasses through departmental store kiosks and MBO format also.

### Brands:

- 1) **TITAN EYE PLUS:** Retail brand
- 2) **TITAN:** main in-house frames and lenses brand
- 3) **FASTRACK and GLARES:** in-house sunglasses brand
- 4) **LICENSED BRANDS:** for frames and lenses (Levis, Esprit, Hugo Boss, etc.)

### Reach and Presence:

- **EBO/ Retail stores:** 513 Titan Eye Plus stores in 221 cities with 339,000 sqft space.
- State -of- the-art lens lab and frame manufacturing facility at Chikkaballapur, Karnataka.
- 3 satellite lens labs opened at Kolkata, Noida and Mumbai
- Facility of 30-minute delivery of prescription glasses which is highly successful

### Precision engineering growth strategies:

- Penetrate top 10 strategic customers in Europe, USA & Mexico.
- Opportunities due to BS 6 (Emission norms) by 2020.
- Penetrate Electric Vehicle market.
- New business segment- Food Processing Equipment

<b>Revenue- Total</b>	<b>INR 253 crores</b>	<b>Order Wins -Total</b>	<b>INR 270 crores</b>	<b>Exports - Total</b>	<b>INR 175 crores</b>
Automation	INR 147 crores	Automation	INR 142 crores	Automation	INR 80 crores
Aerospace	INR 106 crores	Aerospace	INR 128 crores	Aerospace	INR 95 crores

### Subsidiary:

**Favre Leuba AG (FLAG):** FLAG, since 1718 was incorporated with Titan in 2012, is a 100% subsidiary of Titan. FLAG is headquartered in Solothurn, Switzerland and owns the Favre Leuba brand, one of the oldest Swiss watch brands.

The global rights to the trademarks of Swiss watch brand's acquisition was being pursued on an asset purchase mode, for a sum under €2 million (Rs 13.8 crore). The acquisition will give access to technology for high-end mechanical watches which are in vogue now.

During the year 2017-18, Favre Leuba AG had registered a turnover of CHF 0.9 million i.e ~6.05 crores against the previous year's figures of CHF 1.27 million, i.e ~8.61 crores and loss of CHF 7.5 million, i.e ~50.21 crores (2016-17: 4.31 million, i.e. ~29 crores).

**Titan Watch Company Limited, Hong Kong:** Titan Watch Company Limited is a subsidiary of the Company's subsidiary Favre Leuba AG and hence is a subsidiary of the Company. It has a capital of HK \$ 10,000 and no Profit and Loss account has been prepared as it has not yet commenced business.



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**Carat Lane Trading Private Limited:** (66.59% ownership) Carat Lane Trading Private Limited (CaratLane) is engaged in the business of manufacture of jewellery products and has significant online presence. During the year 2017-18 CaratLane has registered a turnover of ~290 crores (previous year: ~179.38 crores) and the loss amounted to ~83.88 crores against the previous year's figures (loss) of ` 79.51 crores.

**Titan Engineering & Automation:** Titan also has a Precision and Engineering Division started in 2005 to leverage precision engineering capabilities to other industries This division is now housed under a wholly-owned subsidiary – Titan Engineering & Automation Limited (TEAL). During FY 2017-18, TEAL generated a total Revenue of ` 252 Cr. and added two new clients in Aerospace and four new clients in Automation, including one in food-processing, opening a new business segment.

**Titan Time Products Limited, Goa (TTPL)**

**Joint Venture & Associate: Green Infra Wind Power Theni Limited:** 26.79% ownership

**Montblanc Retail India Private Limited:** The Company holds a 49% equity stake in a joint venture entered into with Montblanc Services B.V., the Netherlands for operation of retail boutiques in India for Montblanc products. Company is known for high-end pens, this chain also sells its own line of luxury watches, jewelry & more.

### Business Strengths:

**Highest network reach among organized retailers presence**

Jewelers	Presence	North	East	West	South	Presence in cities
Tanishq	National	78.0	46	59	71	156
PCJ	North	65.0	14	10	4	77
Kalyan	South	13.0	4	11	58	71
Joy Allukas	South	5.0	0	7	59	58
Malabar Gold	South	5.0	1	7	86	64
GRT	South	0.0	0	0	46	22
Jos Allukas	South	0.0	0	0	38	30
Thangmayil	South	0.0	0	0	32	16
Khazana	South	0.0	0	0	47	31
TBZ	West	1.0	7	25	4	26
PN Gadgil	West	0.0	0	24	1	16
PN Jewellers	West	0.0	0	22	0	13
Senco	East	9.0	74	4	4	48

### Return & Margin Profile:

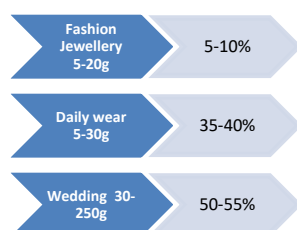
ROE %	FY16	FY17	FY18	ROCE %	FY16	FY17	FY18	Margins %	FY16	FY17	FY18
Titan	19.24	18.55	22.44	Titan	23.11	24.69	29.28	Titan	9.28	9.50	11.14
PCJ	18.15	14.91	15.56	PCJ	25.98	22.44	23.43	PCJ	11.20	10.74	11.60
Thangmayil	7.91	9.74	14.38	Thangmayil	12.68	14.55	15.38	Thangmayil	3.61	3.82	4.41
TBZ	-5.09	3.69	4.42	TBZ	3.65	6.69	7.34	TBZ	2.99	4.69	4.83
GRT	30.08	24.57	NA	GRT	7.91	9.76	NA	GRT	4.10	4.37	NA
Joy Allukas	11.59	12.53	15.3	Joy Allukas	14.12	16.11	19.67	Joy Allukas	4.78	4.98	5.25
Kalyan	5.07	-3.51	5.42	Kalyan	10.83	6.26	11.05	Kalyan	5.25	3.63	6.75

Source: Capital Line

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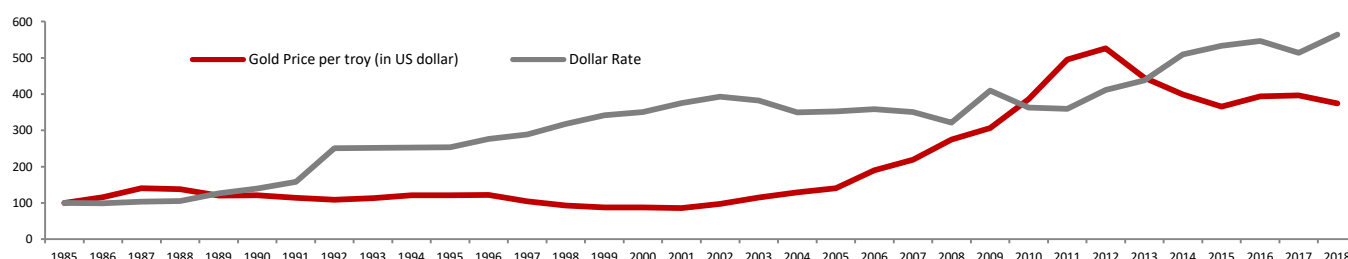
### Industry and opportunity:

**India's gold demand to remain robust between 850–950 ton by 2020:** India's per capita income is one of the most significant factors underpinning gold demand and will increase over the coming years. The IMF expects growth of 35% from 2015 to 2020. More generally, India's middle class which is at 15-20% of total population at 200mn-250mn people whose average income ranges between Rs 2.4lac-7.2lac pa, will grow to a population of +500mn people by 2025 (as per world gold council report).

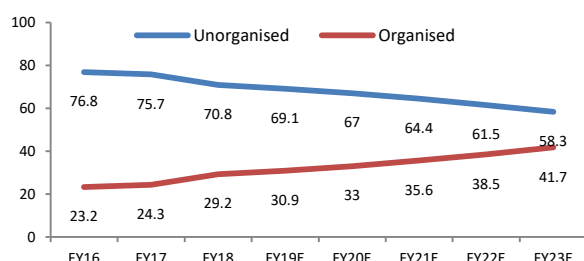


**Domestic jewellery market to grow at 6% CAGR at Rs. 3.5bn by FY23:** Weddings are always core in Indian families, boosting Jewelry demand. Indian weddings are estimated at ~8-10mn with an average ticket size of ~Rs 2 lac pertaining to Rs 1.6tn (55% of domestic jewellery sales).

67% of country's population resides in rural areas, where Jewellery is the only way out for a genuine long-term investment and also the symbol of luxury being dominated by bridal jewellery.



### Shift From Organised to Organised:



### Shift of organized market from ~30% to ~42%:

~70% of retailers and 90%–95% of manufacturers are small, independent firms. Large regional and national retailers such as Titan have taken a larger share in the jewelry industry. By 2023 organized share should rise to ~42%. And as India's jewelry export market grows, organized manufacturers should grow too. Apart from this major growth would come from Government intervention & Hallmarking. Since titan is already gaining market share it will be tougher for new players to compete when shifting from unorganized to organize.

**Government intervention:** Industry is going through regulatory changes since 2013 which has been favorable to organized players like Titan. Events in Gold sector like ban on "gold on lease", imposition of the 80:20 import rule, mandatory PAN-Card for 2lac+ transactions, Demonetization and GST. Such events are pushing consumers to purchase more from organized now and jewelers in the unorganized segment have started to see a credit squeeze in the market which is also a sign of shift to organized sector.

**Mandatory hallmarking of jewellery with BIS Act, 2016:** Recent developments mark further improvements, with the approval of a new BIS Act 2016. Its primary aim is to make the hallmarking of gold jewellery mandatory and allow the government to enforce it. This could largely wipe out the malpractice of gold jewellery and ornaments of inferior purity being sold as 22-carat.

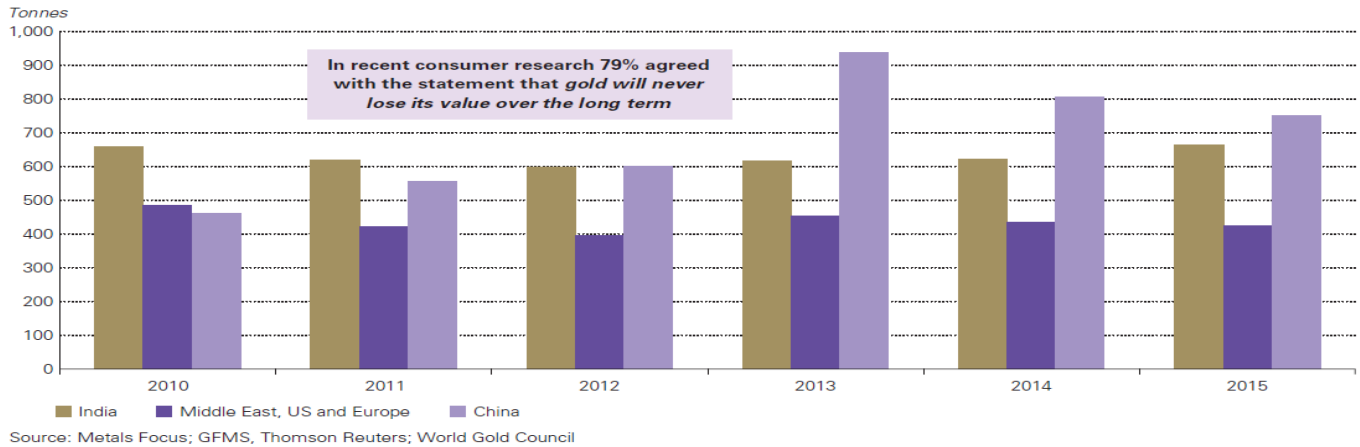
**India is one of the largest jewellery consuming nations in the world:** In 2015, India bought 663t of gold jewellery, second to China, but comfortably ahead of the US, Europe and the Middle East combined. Over recent years, it has consistently been one of the world's largest gold jewellery consuming countries.



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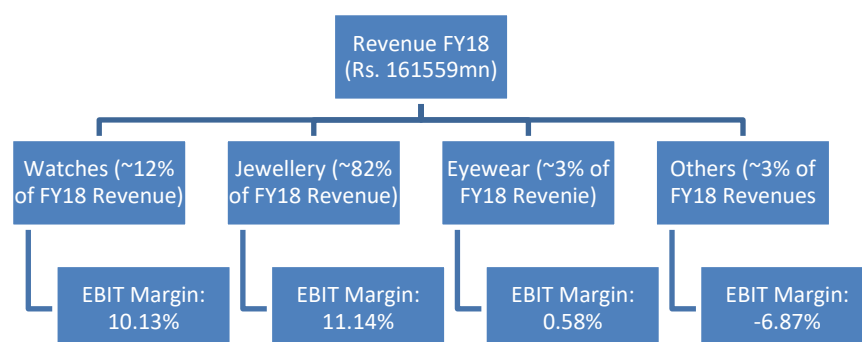


**India's YoY nominal expenditure growth rate at +12% v/s global rates of ~5%:** India today is home to over 245,000 dollar millionaires and has over 400 million millennials, who are set to triple consumption in India to US\$ 4 trillion by 2025. The Indian consumption story being one of the world's most compelling.

## Initiating Coverage @ Dalal & Broacha

### Business:

### Sales Mix as per FY18:



### Business model:

**Watches (12% FY18 Revenues):** The watch segment has grown at 11.32% CAGR over FY04-FY18, with margin of 10.13% in FY18. Profitability in FY18 was driven by;

- Pick up in mature brands of Titan, Fastrack and sonata
- Launch of new products and new smart watch segment
- Growth in Rs. 4000+ price-point products
- Cost cutting initiatives of curbing discounts in trade channels, VRS scheme and etc.

### ~7% CAGR to be achieved through:

- Store addition
- Volume growth via push through more effective channels such as E-commerce, EBO & MBO.
- Premiumisation
- Smart watches across price points
- New product launch.
- Revving of sonata brand
- Refresh look
- Raga momentum
- Differentiated products

**Jewellery (82%+ of Revenues) still a big opportunity ahead:** The jewellery business recorded its best-ever performance since inception with ~28% CAGR over FY04-FY18 and highest ever margin of 11.14% in FY18. Driven by strong same store sales growth of around 20%, the total revenues rose by 25% for the second consecutive year at Rs.1,31,255 Mn. outperforming both the national and local/regional competition. Management guided for 20% sales growth in FY19 and 10% market share by FY2023 (implying its 20% revenue CAGR).

**2.5x in 5 years:** the company has stated ambition to grow at a CAGR of 20-25% over next 4-5 years with focus on following factors: 1) Wedding currently 35% of total Plain Jewellery business (which is 70% of FY18 Revenue) estimated to be at 50% by FY23 2) High Value Diamond Studded Jewellery currently 30% of studded business (which is 30% of FY18 Revenues) estimated to be at 50% by FY23. 3) Gold Harvest Scheme expansion 4) Increase in Market at ~10% 5) Network Expansion

**Contribution from Golden EXCHANGE scheme to increase from 30% in FY18 to 40% in FY23:** Golden exchange programme helping it to up-sell. Share of exchange gold has gone up from 20% (three years prior) to 30% in FY18 as cash shortage post-demonetization forced customers to exchange old jewellery to buy new jewellery.

**Wedding opportunity Size 150,000crs:** Contributes ~35% of Jewellery Revenues in FY18 (which was less than 5% of Tanishq Revenues four years back) since Tanishq was a) at premium to others b) earlier it was not considered as a set of serious wedding purchase c) Family Jewelers



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dominated for every linguistic community. The company has identified 18 linguistic communities contributing to 80-90% of wedding purchases and have built merchandise as per their preferences under "Rivaah", targeted by emotional connect between Father and Daughter.

**Rs. 40bn market of studded jewelry to grow at 11% CAGR by FY23:** The market grew at 9-10% CAGR over FY13-18 which is expected to remain same, as the prices has been stable since FY17. Given that the wedding segment is extremely competitive and fraught with consumer discounts, we expect Titan's pricing premium to reduce over peers with time.

**Cartalane & other subsidiary brands:** Cartalane at Rs.2.9bn in FY18 (+2% sales to total jewellery), sets a target to breakeven in FY19 supported by accelerated expansion with high level of marketing investments in local connect of marketing. Targets Sales of Rs 17.5 bn, EBIT of 5%, ROCE of 20% with 100 stores by FY2023.

Subsidiary brands going ahead to contribute ~9% in FY20 at ~Rs. 17bn, where Mia will be at Rs 7.5 bn ; Aveer (brand for men's jewellery) Rs 5 bn and Zoya (High value diamond jewellery) Rs 5 bn

**Eyewear (3% FY18 Revenues) to grow at 9% CAGR by FY21:** The eyewear business maintained a stable growth rate of 8%. Titan EyePlus continued to do well, while the sunglasses business faced challenges due to GST disruption.

Titans eyewear business has 2 parts, prescription eyewear & sunglasses. In prescription business profitability is always a concern due to disruptive offers by its peers like lenskart. Eyewear focus is on customer acquisition and breaking the high price perception. In Q2FY19 quarter Titan launched its new great value products where the company is manufacturing low priced points products in the range of Rs. 1000- Rs. 2000. Management highlighted this exercise will not lead to margin dilution at gross margin level ; however PBT margin will get impacted in FY19 due to disproportionate ad spends. To acquire customer base of 10mn Titan is taking initiatives such as;

- Spend on marketing to improve brand presence and acquire new clients.
- Additional lens labs
- Commence frame distribution to trade
- Network expansion where in FY18 company opened 22 stores in 1 year and 13 store till H1FY19
- Initiatives in customer experience
- Expanding value chain

### **Others (3% FY18 Revenues):**

- **TEAL (Aerospace and engineering components subsidiary):** It reported sales/ profits of Rs 2.53bn /0.21 bn respectively in FY18 and has healthy order book (Rs 2.7 bn) that is yet to be executed.
- **Mont Blanc (luxury retailing joint venture):** Opened 5 stores in FY18 taking total reach to 10 stores. Store level profitability achieved; yet to achieve profits at JV level
- **Favre-Leuba:** Brand will be positioned as bridge to luxury with price points ranging from INR 1 lakh to 5 lakhs at top end. Strategy is to sell it in few select markets – Switzerland, India, Middle east, far east including Japan, where brand recall is good.
- **Skinn (Fragrance brand):** Sales – Rs <1 bn ; Plans to take it to Rs 5 bn in next 5 years given that category is under-penetrated
- **Taneira (special Occasion wear):** Doing well ; 60% of special occasion wear comprises of sarees





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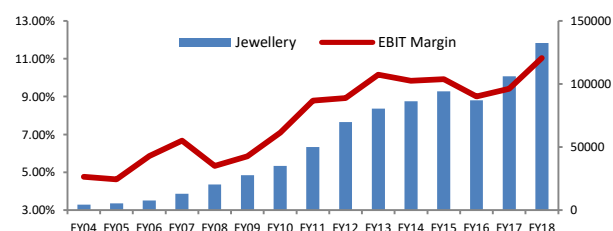
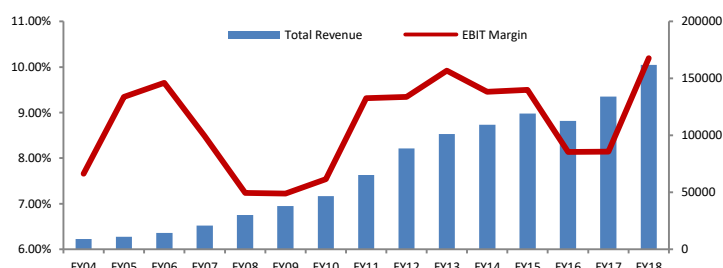
### Financials:

Titan revenues have been growing at a CAGR of ~22.9% over FY04 to FY18 to Rs 161559.5 mn.

The business continued to capitalize on the formalization opportunity in the Indian economy created by demonetisation and the implementation of GST.

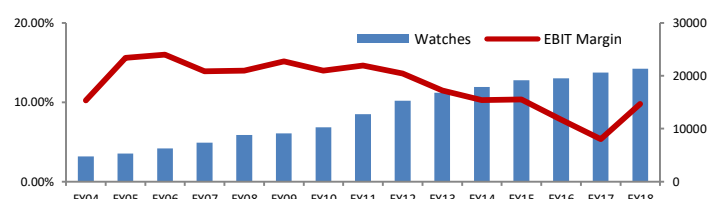
We expect going forward overall business to grow at a CAGR of ~20% between FY18 to FY21.

Which is likely to be achieved as follows



**Jewellery (+82% of Revenues):** ~21% CAGR growth, where the target is i) increase wedding jewellery share from 35% (of entire plain jewellery at 70%) in FY18 to 50% by FY23 and High value studded from 30% (of studded business at 30%) in FY18 to 50% by FY23, ii) Increase in network from 253 stores in 150 towns in FY18 to 400 stores in 250 towns by FY23, iii) Gold exchange scheme to contribute 50% in FY23 from 40% in FY18 and iv) increase in market share to 10% by FY23 through capturing unorganized market.

**Watch (12% of Revenues):** ~11% CAGR, introduction of smart watch Reflex under Fastrack brand-which is growing well competing global brands in lower segment and Revamp of its mass segment brand "Sonata" to give double digit growth in coming years. Its growth started to reflect in H1FY19 at 16.29% v/s ~7% in H1FY18.



**Eyewear (3% of Revenues):** ~19% CAGR, with the successful launch of new strategy in Q2FY19 where they have launched lower priced products to capture mass segment. Of total 1.200mn population, 530mn (44%) needs vision correction and total 170mn(32%) people uses spectacle and only 60mn (35%) people buy specs every year. Titan's target is to serve 10mn customers by FY23.

**Others (3% of Revenues):** ~27% in other which includes Precision engineering, taneria and etc.

### Margins:

- Titan's current EBITDA margins are at ~10.2%; main focus is on jewellery mainly contributed by Jewellery business (~82% of FY18 revenues) that has ~11.14% EBIT margin
  - Highest since inception
  - Growing at ~15.71% CAGR over FY15-FY18.
  - Business to sustain margin's going ahead.
- Watches (~12% of FY18 revenues) EBIT margins are ~10.13%
  - Growing at ~1.31% CAGR over FY15-FY18
  - Watches has delivered at 16.55% in H1FY19 due to push in Fastrack and revamp of Sonata brand (mass segment)
  - Expected to improve going forward.
- Eyewear (~3% of FY18 revenues) EBIT margins are ~0.58%, with the introduction of lower priced products this segment would be to generate higher volumes and margins.



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Titan's Jewellery business margin improvement are sustainable on a long-term basis; on account of increase in wedding jewellery portion to 50% by FY23, golden harvest scheme to improve average ticket size and share of Gold exchange scheme to reach 50% by FY23 – which would give working capital efficiency.

As the improvement in Jewellery and Eyewear's new strategy overall Titan would give **~26% CAGR in margins over FY18-FY21, with margin improvement at ~11.7% v/s 10.2% in FY18.**

**CAPEX:** Titan being an Asset light company has low capex requirement hence spend for FY19 is expected to remain in the range of Rs 200 to Rs 250mn.

### Strong Free Cash Flows:

Titan to generate Rs. 10,321mn free cash flow in FY19 and going forward it is expected to grow at ~11% CAGR over FY19-FY22 to Rs.14,032mn. This is mainly due to improvement in EBITDA and low CAPEX requirement due to asset light model. Titan ROE and ROCE for FY18 stood at 22% and 29% respectively, expected to reach 27% and 37% by FY22.

### H1FY19:

H1FY19 revenues grew by 17.89% YoY to Rs 90,182.6mn supported by double digit growth in all segments. EBITDA increased by 20.97% YoY to Rs 9,517.9mn and EBITDA margins stood at 10.55% as against 10.29% last year. Titan recorded Net Profit of Rs 6,314.3Mn (excluding non-controlling interest) registering a growth of 19.73% YoY.

### H1FY19 Segment wise:

**Watch business** grew by 16.29% to Rs 12,751mn and gross margins improved to 16.55% v/s 11.17% YoY.

**Jewellery business** grew by 16.60% to Rs 72,876mn and gross margins marginal down by 10.46% v/s 10.75% YoY.

**Eyewear business** grew by 17.77% to Rs 2,516mn and gross margins at 0.89% v/s 2.12% YoY.

**Other business** grew by 60.10% to Rs 2,137mn and gross margins marginal improved to negative 2.88% v/s negative 17.05% YoY.



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#### VALUATION

Particulars				EPS Rs			EV/EBITDA			P/E		
	Name of the Company	CMP	NO. of Shares	M.Cap (Rs Mns)	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E
ABFRL	200	771.7	154340	2.367	3.746	4.842	26.94	21.54	18.06	84.5	53.4	41.3
V-Mart	2230	18.1	40363	44.3	55.5	61.7	34.2	32.1	26.3	50.3	40.2	36.1
Trent	351	332.3	116644	4.9	7.1	10.5	42.6	31.4	33.6	71.6	49.4	33.4
Titan	955	887.7	847754	15.4	19.8	24.9	40.8	31.8	25.3	62.0	48.2	38.3
<b>AVERAGE</b>							<b>36.1</b>	<b>29.2</b>	<b>25.8</b>	<b>67.1</b>	<b>47.8</b>	<b>37.3</b>

Weighted Average Target Price	Multiple	Target Price	Assigned	Price	Comment
P/E	45	1121.9	70%	785	Average PE of peers for FY21 is <b>37.3x</b>
EV/EBITDA	25.8	922.9	30%	277	
<b>Target Price</b>				<b>1062</b>	

EV/EBITDA Multiple FY21E	25.8
EBITDA FY21	32620.4
FY21 EV (Rs Mns)	842014
Debt FY21 (Rs Mns)	789.9
Cash FY21 (Rs Mns)	23555.2
Market Cap (Rs Mns)	819249
<b>Per Share (Rs)</b>	<b>922.89</b>

Titan being one of its kind branded player in the jewellery industry will enjoy the brand premium. The trust and the loyalty attached with this brand has enhanced post the issues of fraud cases by certain large jewelers. Thus we believe it will enjoy premium valuation.

At CMP of Rs 955 Titan trades at 48.30x FY20e EPS of Rs 19.77, 38.35x its FY21e EPS of Rs 24.9

We recommend investors to **Accumulate** Titan Company Ltd with a target price of Rs 1062 i.e. an upside of ~11% based on our weighted average target price model giving 70% weightage to PE method and 30% weightage to EV/EBITDA. Considering low market penetration of organized players in jewellery industry and high growth expected from Titan, higher than average P/E of peers (37.3x FY21E) of 45x FY21E EPS of Rs. 24.9 is given.





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