


13<sup>th</sup> July, 2018

CMP – ₹836.5/-

View – POSITIVE

**Company Background and Business Model**

Titan Company is a manufacturing company that produces India's largest and best-known range of personal accessories – watches, jewelry, sunglasses and prescription eyewear. The company was established in 1984 as a joint venture between Tata and the Tamil Nadu Industrial Development Corporation. Headquartered in Bengaluru, India, the company has manufacturing and assembly operations at Hosur, Dehradun, Roorkee, Pantnagar and Chikkaballapur, and an electronics component manufacturing plant in Goa. Starting out as a watch manufacturer, the company then diversified into the eyewear business in 2003 & the jewelry business in 2005 under the brand Tanishq. Currently jewelry account for ~83% of the topline while watches contribute ~14%.

**Investment Argument**

➤ **Focus on growing scale in the jewelry segment** – FY18 was a great year for the jewelry business which recorded a growth of 24.3% YoY of which 23% was grammage growth. In FY18, the company has added 45 *Tanishq* stores, including conversion of 22 Gold Plus stores (67k sq. ft. of retail space added). The management has guided for growing this segment by 2.5x over FY18-FY23. **The highlights of road map to achieve the same are:**

- **Increase in Sale of High Value Products** – The company is targeting to increase sale from wedding segment from 35% of jewelry sales in FY18 to 50% by FY23. The company is also planning to increase sale of high value diamonds jewelry from 30% of diamond jewelry sales in FY18 to 50% in FY23.
- **Increase presence in markets where share is low** – The Company has identified 15-20 cities in the country where it has a less than national average market share. Market share in these 17 cities is expected to increase from ~4% to ~8% by FY23. The company also intends to focus on Central India going forward. From 256 stores in 159 towns in FY18, the company is likely to have 400 stores in 250 towns by FY23, which is quite remarkable expansion, in our view.
- **Consumer Programs aiding in growth of client base** – Golden Harvest Scheme continues to be one of the key pillars. A deposit scheme with the discounted purchase options on maturity has attracted customers. Company's exchange policies for purchase of new jewelry has also helped recruit new customers. The contribution of sale of jewelry in exchange of old jewelry has increased from 20% to 40% of sales over the past 18 months, and it is likely to reach 50% by FY23.
- **Increasing Share of New Product Sales** – Proportion of new products has increased consistently every year to 30% of sales as of FY18 and is likely to reach ~50% by FY23.

**Important Statistics (₹crs)**

M.Cap	74263.3
52 Week H/L (₹)	1006/522
NSE Code	TITAN
BSE Code	500114

**Financials**

(₹ crs)

	FY17	FY18
Sales	13260.8	16119.7
EBITDA	1155.5	1644.7
EBITDA Margin	8.71%	10.20%
Reported PAT	697.3	1101.9
PAT Margin (%)	5.26%	6.84%
EPS (₹)	8.17	12.75
PE(x)	99.1	63.6

Segment Wise	FY17	FY18
Sales		
Watches	2061.11	2131.53
Jewelry	10596.42	13256.85
Eyewear	414.03	414.98
Others	334.77	371.94
Corporate (unallocated)	46.29	69.51

EBIT & Margins	FY17	FY18
Watches	110.35	208.61
	5.35%	9.79%
Jewelry	997.96	1462.67
	9.42%	11.03%
Eyewear	12.78	2.4
	3.09%	0.58%
Others	-29.71	-25.44
	-8.87%	-6.84%
Corporate (unallocated)	-80.39	-65.54
	-174%	-94%

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*Given the company's guidance (2.5x by FY23) the jewelry business is expected to clock a 20% revenue CAGR over FY18-23E. EBIT Margins for the jewelry business improved from 10% in FY17 to 11.9% in FY18. We believe the expansion will entail some fixed costs but over a medium term period the operating leverage will aid margin expansion. Company has guided for a muted Q1FY19 sales number on the back of a high base. The growth will return in subsequent quarters.*

- **Watches & Accessories segment making their mark** – The company embarked on re-branding and restructuring its watches and accessories division in FY17 which bore fruit in FY18. Adjusted for the GST impact, Watches segment grew in double-digits in FY18, with volume growth of 8%. EBIT margin of 13% also staged a smart recovery. 'Fast Track' drove growth, with growth of 14% in FY18. The company is launching smart watches under its economy brand 'Sonata'. The five pillars of growth in the watches segment over the next few years are (a) technology, (b) increasing the number of customers, (c) new brands, (d) continued focus on profitability and (e) growth. As part of the strategic review of the eyewear business toward the latter part of FY18, it was decided that customer acquisition will be a key focus area. The company had 1.4m customers in eyewear and another 1m in sunglasses in FY18. By FY23, it is targeting 10m customers per year.

## Valuations

At its CMP of ₹836.5/-, the stock trades at ~65.6x its FY18 earnings of ₹12.75/-. Titan is well positioned to capture consumer demand given its strong brands and an added fillip from the GST roll out as demand shifts to the organized sector. Given the company's strong growth prospects we are **POSITIVE** on the stock.


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### Disclosure of Interest Statement in Titan Company Ltd. as on July 13<sup>th</sup>, 2018

Name of the Security	Titan Company Ltd.
Name of the analyst	Shivani Vivek Vishwanathan & Ashwini Sonawane
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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