

Titan Company (TITIND)

Multiple levers in place to drive sales growth

The management, in its latest BSE filings, has said that the company has undergone a vision exercise to rejig its revenues for FY23E. The management had earlier guided to grow its jewellery revenues at a compounding rate of 20% till FY22 (2.5x revenues of FY17). The same growth phase has now been extended to FY23. Given the robust performance in 9MFY18 (24% and 32% revenue and EBITDA growth, respectively), the management remains upbeat on the growth outlook with the aim to be a ₹ 50000 crore company by FY23E (revenues in terms of MRP). Titan aspires to touch 50 million customers across all its segments. The jewellery division is expected to continue be the largest revenue contributor with an MRP target revenue of ₹ 40000 crore (given ~20% markdown, the jewellery turnover is expected to reach ₹ 32000 crore). Tanishq's aggressive foray in the wedding space and diamond studded jewellery are key growth levers.

Market share gains to continue for jewellery segment

In its quarterly preview for Q4FY18, the management highlighted that FY18 was a satisfactory year for the company across all its divisions. Recent industry challenges (loan related scam) have led to serious working capital issues for jewellery players in India. However, given Titan's robust balance sheet, the impact of the same is minimal. For Q4FY18, the jewellery division witnessed healthy retail growth (in the mid-teens) on the back of successful diamond jewellery activation and a more customer friendly revised gold exchange policy. Titan's omni-channel retailer, Caratlane, also reported healthy sales and gross margins for FY18. The watches division reported a strong quarter on the back of number of new launches in Q4FY18. The prescription eyewear division reported decent sales growth for FY18 but the sunglasses business continued to face headwinds owing to GST related issues.

Financial outperformance to sustain over longer horizon; maintain BUY

Titan has a healthy balance sheet with virtually debt free status, robust cash flow from operations and strong return ratios (25% RoCE). On the P&L front, robust topline growth has led to significant margin expansion, with the company clocking double digit EBITDA margins in 9MFY18 (10.1%). According to industry estimates, the domestic jewellery industry is pegged at ₹ 250000 crore, of which Tanishq's penetration is still at a nascent stage with a share of ~5%. This provides an immense opportunity for Titan to enhance its market share, going forward. Recent regulatory changes such as gold hallmarking and GST have turned out to be highly favourable for organised players like Titan, leading to market share gains from unorganised players.

Furthermore, capitalising on larger opportunities like the wedding space and high value diamond studded jewellery has resulted in new customer addition and expansion of average ticket size. High asset turnover, coupled with positive operating leverage are expected to translate into 34% RoCE by FY20E from current 25%. We believe Titan's growth story will remain multi-pronged and drawn over a longer time frame. Consequently, we shift to a DCF based valuation to arrive at a target price of ₹ 1090 with a BUY recommendation on the stock. On a DCF basis, we assume revenue CAGR of 20% over FY17-23E and 11% over FY24E-30E with 10.8% WACC and 4% terminal growth rate.

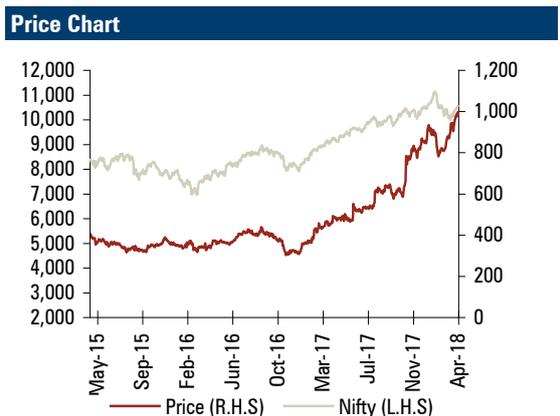
Rating matrix		
Rating	:	Buy
Target	:	₹ 1090
Target Period	:	12 months
Potential Upside	:	15%

What's changed?	
Target	Changed from ₹ 990 to ₹ 1090
EPS FY19E	Changed from ₹ 17.0 to ₹ 15.8
EPS FY20E	Changed from ₹ 22.0 to ₹ 20.0
Rating	Unchanged

Key financials				
(₹ crore)	FY17	FY18E	FY19E	FY20E
Net Sales	12,979	15,543	18,810	22,440
EBITDA	1,155	1,585	2,032	2,536
Net Profit	711	1,079	1,407	1,773
EPS (₹)	8.0	12.2	15.8	20.0

Valuation summary				
	FY17	FY18E	FY19E	FY20E
P/E	118.5	78.1	60.0	47.6
Target P/E	136.1	89.7	68.8	54.6
EV to EBITDA	72.3	52.7	41.1	33.0
Price to book	8.9	7.6	6.4	5.4
RONW (%)	16.8	21.9	24.0	25.3
ROCE (%)	24.7	29.1	31.9	33.5

Stock data	
Particular	Amount
Market Capitalisation (₹ Crore)	84,339.7
Debt (FY17) (₹ Crore)	-
Cash (FY17) (₹ Crore)	802.0
EV (₹ Crore)	83,537.6
52 week H/L	1006 / 460
Equity Capital (₹ Crore)	88.8
Face Value (₹)	1



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Exhibit 1: DCF Valuations

WACC(%)	10.8
Revenue CAGR of over FY17-23E (%)	20.0
Revenue CAGR of over FY24-30E (%)	11.0
Sum of Discounted FCFF (₹ crore)	15914.7
Terminal Growth Rate (%)	4.0
Terminal Value (₹ crore)	80015.9
Enterprise Value (₹ crore)	95930.6
Net Debt/ (Cash) (₹ crore)	-786.5
Target Market cap (₹ crore)	96717.1
No of shares (in crore)	88.8
Target Price (₹)	1090

Source: Company, ICICIdirect.com Research

Exhibit 2: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	12,978.9	15.1	8.0	5.5	118.5	72.3	16.8	24.7
FY18E	15,542.9	19.8	12.2	51.7	78.1	52.7	21.9	29.1
FY19E	18,810.2	21.0	15.8	30.3	60.0	41.1	24.0	31.9
FY20E	22,440.2	19.3	20.0	26.1	47.6	33.0	25.3	33.5

Source: Company, ICICIdirect.com Research

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Total operating Income	12,978.9	15,542.9	18,810.2	22,440.2	
Growth (%)	15.1	19.8	21.0	19.3	
Raw Material Expenses	9,429.2	11,284.1	13,581.0	16,022.3	
Employee Expenses	793.9	870.4	1,034.6	1,256.7	
Mfg, Admin & selling Exps	1,600.4	1,803.0	2,163.2	2,625.5	
Total Operating Expenditure	11,823.4	13,957.5	16,778.7	19,904.5	
EBITDA	1,155.5	1,585.4	2,031.5	2,535.7	
Growth (%)	23.6	37.2	28.1	24.8	
Depreciation	110.5	130.3	150.0	170.8	
Interest	37.7	41.3	32.6	29.8	
Other Income	70.5	110.0	121.0	151.3	
PBT	1,077.7	1,523.8	1,969.9	2,486.4	
Exception items	102.7	11.0	0.0	0.0	
Growth (%)	12.3	55.2	30.2	26.2	
Total Tax	276.0	440.4	571.3	721.1	
Share of JV/Minority int	12.4	7.0	8.0	8.0	
PAT	711.5	1,079.5	1,406.7	1,773.3	
Growth (%)	3.3	53.4	30.4	26.2	
EPS (₹)	8.0	12.2	15.8	20.0	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Liabilities					
Equity Capital	88.8	88.8	88.8	88.8	
Reserve and Surplus	4,143.6	4,849.7	5,766.9	6,922.9	
Total Shareholders funds	4,232.4	4,938.4	5,855.7	7,011.7	
Total Debt	-	56.5	50.9	45.8	
Deferred Tax Liability	(3.3)	(0.2)	3.7	8.7	
Other long term liabilities	26.4	26.6	26.9	27.2	
Total Liabilities	4,255.5	5,021.4	5,937.1	7,093.3	
Assets					
Gross Block	1,184.6	1,422.9	1,647.6	1,886.2	
Less: Accu Depreciation	129.5	259.8	409.8	580.6	
Net Block	1,055.1	1,163.1	1,237.8	1,305.6	
Capital WIP	152.1	201.6	141.1	141.1	
Goodwill on Consolidation	123.0	123.0	123.0	123.0	
Total Fixed Assets	1,330.1	1,487.7	1,501.9	1,569.7	
Investments	441.4	485.5	534.1	587.5	
Inventory	4,925.7	5,535.8	6,596.5	7,808.0	
Debtors	207.6	221.4	257.7	295.1	
Loans and Advances	650.2	699.4	902.9	1,077.1	
Other Current Assets	-	-	-	-	
Cash	802.0	770.3	824.9	832.3	
Total Current Assets	6,585.6	7,227.0	8,581.9	10,012.5	
Creditors	2,842.3	2,596.9	3,125.5	3,687.3	
Other Current Liabilities	1,200.0	1,554.3	1,504.8	1,346.4	
Provisions	141.2	109.6	132.4	124.5	
Total Current Liabilities	4,183.5	4,260.8	4,762.7	5,158.2	
Net Current Assets	2,402.1	2,966.2	3,819.3	4,854.3	
Others Non Current Assets	81.9	81.9	81.9	81.9	
Application of Funds	4,255.5	5,021.4	5,937.1	7,093.3	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
PAT	711.5	1,079.5	1,406.7	1,773.3	
Add: Depreciation	110.5	130.3	150.0	170.8	
(Inc)/dec in Current Assets	-568.1	-673.1	-1,300.3	-1,423.2	
Inc/(dec) in CL and Provisions	1,473.7	77.2	501.9	395.5	
Others	0.0	0.0	0.0	0.0	
CF from operating activities	1,727.6	613.9	758.2	916.5	
(Inc)/dec in Investments	-401.3	-44.1	-48.6	-53.4	
(Inc)/dec in Fixed Assets	-404.8	-238.3	-224.7	-238.6	
(Inc)/dec in CWIP	-45.4	-49.6	60.5	0.0	
Others	-102.5	0.0	0.0	0.0	
CF from investing activities	-953.8	-332.1	-212.7	-292.0	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-113.1	56.5	-5.7	-5.1	
Others	24.7	-370.1	-485.2	-612.1	
CF from financing activities	-88.4	-313.6	-490.9	-617.1	
Net Cash flow	685.4	-31.7	54.6	7.4	
Opening Cash	116.7	802.0	770.3	824.9	
Closing Cash	802.0	770.3	824.9	832.3	

Source: Company, ICICIdirect.com Research

Key ratios		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Per share data (₹)					
EPS	8.0	12.2	15.8	20.0	
Cash EPS	9.1	13.5	17.4	21.8	
BV	47.7	55.6	66.0	79.0	
DPS	0.0	3.6	4.8	6.0	
Cash Per Share	9.0	8.7	9.3	9.4	
Operating Ratios					
EBITDA Margin (%)	8.9	10.2	10.8	11.3	
PBT Margin (%)	8.3	9.8	10.5	11.1	
PAT Margin (%)	5.4	6.9	7.4	7.9	
Inventory days	131.8	130.0	128.0	127.0	
Debtor days	5.6	5.2	5.0	4.8	
Creditor days	87.0	84.0	84.0	84.0	
Return Ratios (%)					
RoE	16.8	21.9	24.0	25.3	
RoCE	24.7	29.1	31.9	33.5	
RoIC*	28.7	33.8	36.0	37.4	
Valuation Ratios (x)					
P/E	118.5	78.1	60.0	47.6	
EV / EBITDA	72.3	52.7	41.1	33.0	
EV / Net Sales	6.4	5.4	4.4	3.7	
Market Cap / Sales	6.5	5.4	4.5	3.8	
Price to Book Value	8.9	7.6	6.4	5.4	
Solvency Ratios					
Debt/EBITDA	0.0	0.0	0.0	0.0	
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	1.6	1.7	1.8	1.9	
Quick Ratio	0.4	0.4	0.4	0.4	

Source: Company, ICICIdirect.com Research

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