TITAN COMPANY LIMITED

SAMRIDDHI EQUITY RESEARCH REPORT

TITAN COMPANY

samriddhi

September, 2022

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Titan Company Limited

The Art of Growth: Firing on all Cylinders

CMP (08th Sep 2022): 2614 TP: 2989 Buy: 14.3%

Investment Thesis

Broad based growth across segments to continue – Jewellery, eyewear and other segments are trending well above pre-COVID levels. Profitability across segments have improved substantially and we expect it to improve further as company gains market share by improved business positioning versus unorganized players as ~70% of market is still unorganized and there is room for further formalisation, increasing penetration and strong brand equity.

Leadership position in jewellery and wristwatches segment with a diversified brand portfolio – Tanishq is India's largest jewellery retailer but only has 6% market share in (Rs 4 lakh crore market) and with multiple brands in jewellery division enables company to meet different aspirations thereby opening up exciting growth opportunities. In wristwatches segment, Titan has 60% market share in the organized market and is 5th largest brand in the world.

Store Expansion plan by tapping middle India & under indexed markets: Titan has strong pan India presence with well entrenched brands and under expansion strategy many stores mix of company-owned stores and asset light franchise model to strengthen presence were opened across tier 3 and tier 4 towns.

Valuations – We initiate coverage on Titan Company Ltd with a buy rating and price target of Rs 2989 implying upside of 14.3% from the current level. The stock currently trades at PE valuation of 94.4x. We expect revenue to grow at a CAGR of 21% over the period of FY22-FY25E. We see tailwinds in Titan sales growth momentum driven by strong revival in discretionary spends, investments in store additions, product design, strengthening of hallmarking regulations etc. which will allow it to grow ahead of industry.

Downside Risks –

- **Volatility in Gold Prices:** Gold Prices have a significant bearing on gold demand. Any steep rise in prices results in lower demand and investment buying.
- **Regulatory Hurdles:** Gold is one of the key import articles, government actions to curb its demand thereby impacts the jewellery business by reducing demand or increasing costs like customs duty, lease rate etc.
- **Increased competition:** Increasing competitive intensity from other organized players creates pressure on growth & margins.

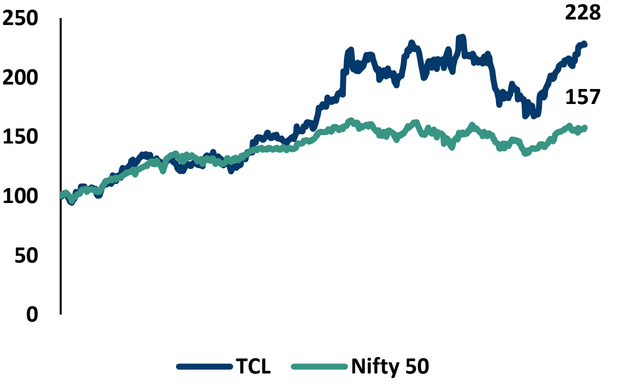
Senior Analysts

Paridhi Jhunjhunwala
(+91) 98743 32853
paridhi.jhunjhunwala370@nmims.edu.in

Renil Shah
(+91) 94267 06595
renil.shah437@nmims.edu.in

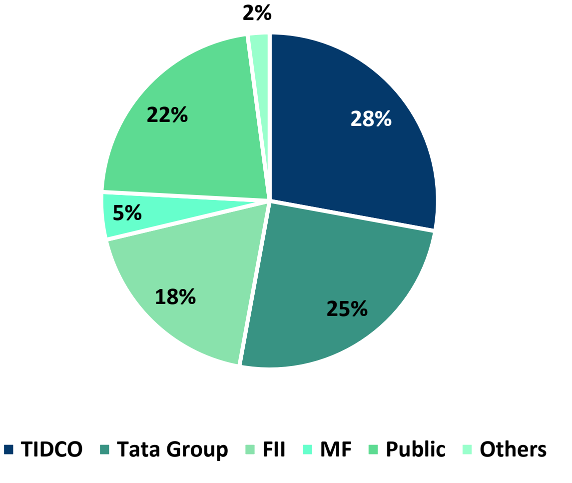
Akshat Baid
(+91) 90512 51097
akshat.baid794@nmims.edu.in

Exhibit 1: Share price performance of TCL vs NIFTY 50 over the last two years



Source: National Stock Exchange

Exhibit 2: Shareholding Pattern for TCL for FY22



Source: Company Data

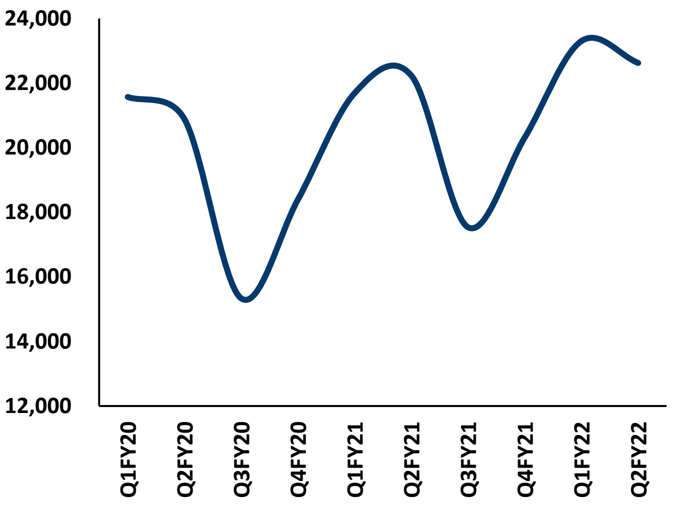
Macroeconomic Overview

India was gearing up for a major economic recovery, with the IMF predicting growth to cross 9%. However numerous events including the Russia-Ukraine war and the rampant resurgence of Covid-19 through Omicron infections dampened India's recovery. Further disruptions in the supply chain and trade hampered the economic fundamentals that were being counted upon for growth.

Consumer confidence and spending have been rising with the easing of restrictions. There is also an appetite for spending in the top 10 income percentile that has not been spent for over a year. Demand for services has been skyrocketing. Moreover, the service industry is improving as well, evident from the PMI numbers that were at an 11-year high in May 2022.

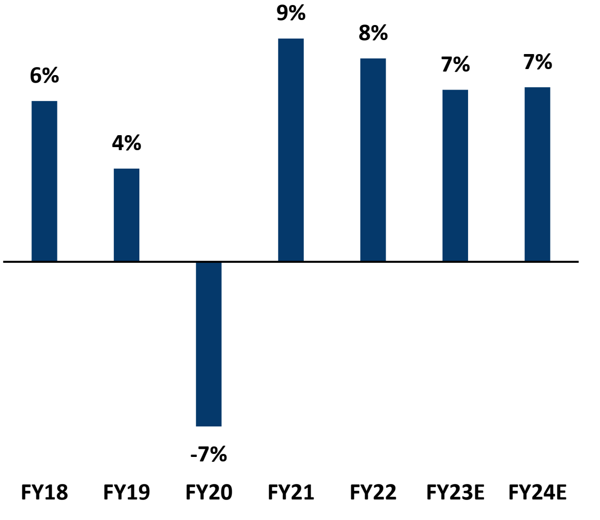
The Indian government has increased its capital investment. Future capital spending is likely to be supported by tax buoyancy, a streamlined tax system with low rates, a thorough study and rationalization of the tariff structure, and automation of tax filing. In the medium run, increased capital spending on infrastructure and asset-building projects is projected to increase growth multipliers.

Exhibit 3: Consumer Spending in Billion USD



Source: Reserve Bank Of India Website

Exhibit 4: India's Real GDP growth rate trend & forecast



Source: IMF and World Bank Estimates

Exports fared quite well during the pandemic and helped the economy recover while other growth drivers lagged. Though future contributions from exports of merchandise could fluctuate as several of India's trading partners experience economic stagnation.

Inflation has been rising around the world since the pandemic began. It was further aggravated by the conflict in Ukraine and the ensuing sanctions against Russia. India's struggle with inflation persisted throughout the pandemic. Most central banks thought inflation was only transitory until late 2021. Banks around the world were hesitant to raise policy rates to stabilise fast increasing inflation because they understood that a tighter monetary policy cannot solve supply-side issues but will instead impact demand. But over the last 6 months the central banks of the United States and the United Kingdom have been aggressively hiking policy rates, while the European Central Bank has recently hinted at similar actions.

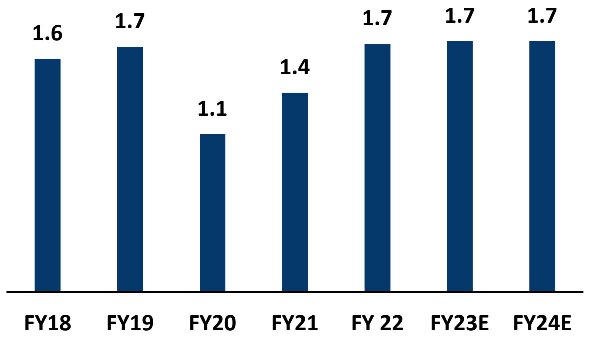
FMCG market experienced its strongest growth in value during FY21, of 16% driven primarily by price increases and a low base to compare with, even as pressure mounted on volume, or the actual quantity of products sold. The pandemic made 2020 a particularly bad year for the retail industry for retailers, however, the growth in business in tier II and tier III cities has been fantastic in 2021. The retail sector has grown significantly as a result of two main factors. The first is that the government has carried out widespread vaccination campaigns across the country and secondly because of local businesses introducing a variety of digital solutions. The retail sector benefited greatly from these technology advances in 2021.

Industry Overview

Jewellery Industry overview

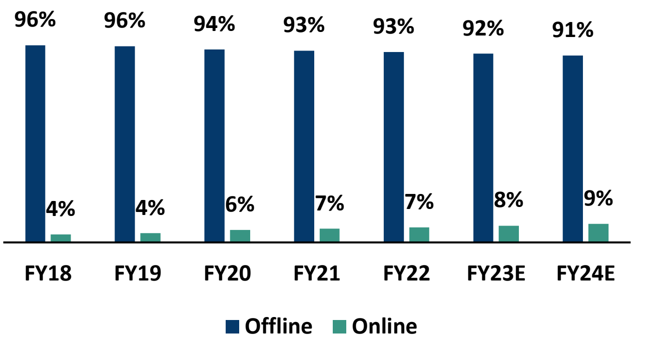
India's gems and jewellery sector is one the largest in the world and contributes to around 27% of the world's consumption, it has revenue worth $1.35 Billion. It contributes around $78.5 billion to the economy in FY21 and contributes 7.5% to India's gross domestic product. Due to the COVID-19 pandemic, the demand for jewellery got reduced by 28% in FY21. However, it is estimated that demand will bounce back and the jewellery sector will grow at an accelerated CAGR of 21% for the next four years. Impact on the jewellery sector has been less severe as compared to other sectors like apparel and accessories given its importance in wedding-related activities which contribute around 60% of total sales.

Exhibit 5: Jewellery industry revenue in Billion USD



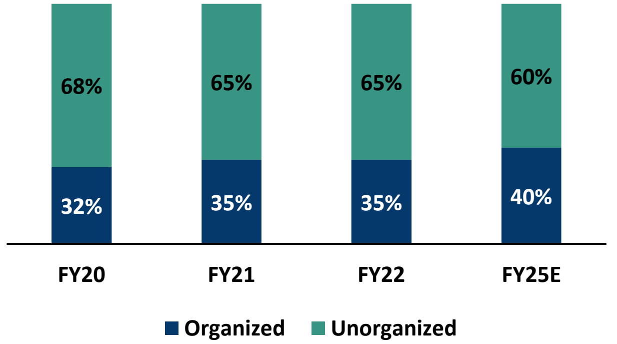
Source: IBEF and Technopak Analysis

Exhibit 6: Online & Offline revenue breakup (%)



Source: IBEF and Technopak Analysis

Exhibit 7: Organized and Unorganized split of jewellery market in India



Source: Technopak Analysis

The Future Outlook

For the jewellery industry, the outlook remains positive with rising Indian middle-class population from 1.2 billion to 2.7 billion and an increase in per capita income of the Indian population.

The government initiative will also lead to an increase in long-term demand like the proposed jewellery park in Navi Mumbai, a better policy framework, etc.

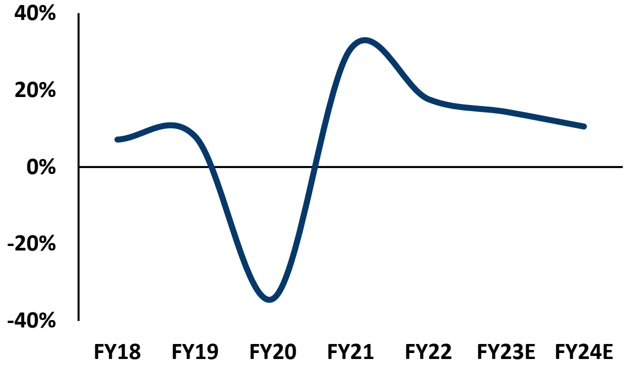
Growth Drivers

- **Regional demand**: The demand for Indian jewellery is heterogeneous India for example demand varies according to region, income level, and cultural level, for example, people in the south prefer jewellery more than people in the east.
- **Seasonal demand**: The demand for jewellery is seasonal and is more during wedding seasons like January, September, October, November and December. It also increases during the festival and harvest season.
- **Urbanization**: India has one of the largest urban populations in the world which is expected to increase from 35% in FY20 to 37% in FY25 and 55 in FY50. With increasing, urbanization and a rise in per capita income people are moving to metropolitan cities where they don't have their trusted family jewellers. This has led to an increase in the sale of organized trusted jewellery brands like Tanishq.
- **Rise in the middle class**: The income of the Indian class has grown at a CAGR of 10% from 2012 to 2020, and their number is expected to double by 2025. With the increase in earnings, the sector to benefit most would be the jewellery sector, luxury products, etc.

Watches Industry Overview

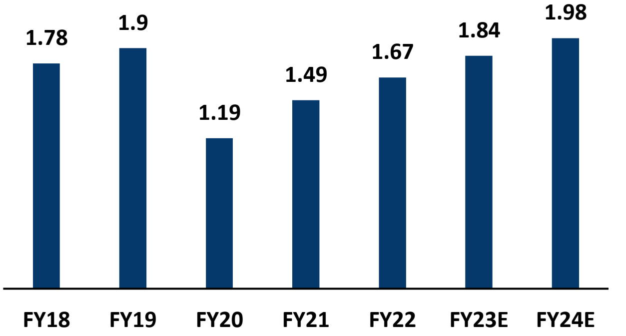
The Indian watch market is divided into two categories. They are classified as traditional watches (which comprise both analog and digital timepieces) and smartwatches based on their product category. While traditional watches account for roughly 76% of the total watch industry, smartwatches account for 24% of the market and are expected to grow at an exponential rate due to consumer desire for fitness and health consciousness, technological developments tying the watch to other smart devices, and most crucially, the arrival of several brands in the mass to mid-segment smartwatch arena that have given customers various choices to choose from without having to purchase them with the try out before buying feature. In the watches segment, revenues amounted to ₹136.10 bn in 2022 in India. Revenue from watches in India has increased by 18% in FY22 from the figures of FY21.

Exhibit 8: Percentage change in revenue of Indian Watch Industry



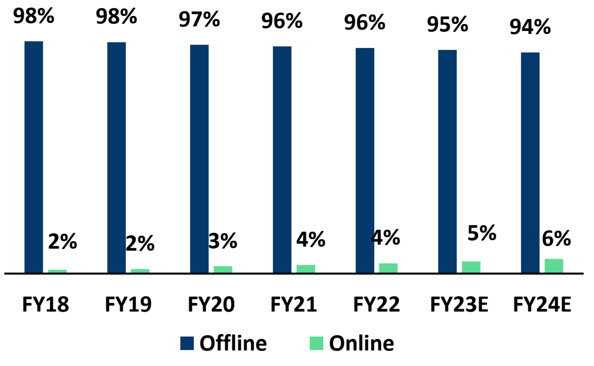
Source: IBEF and Technopak Analysis

Exhibit 9: Revenue trend and forecast of Indian watch Industry (in Billion USD)



Source: IBEF and Technopak Analysis

Exhibit 10: Breakup of Online and Offline revenue for watches industry in India



Source: IBEF and Technopak Analysis

Growth Drivers

- **Increasing disposable income:** With the advent of the growing middle class and an increase in nuclearization, the expenditure per household is expected to increase. The World Economic Forum projects that high and upper-middle-income groups will grow from 25% in 2019 to 50% of households by 2030. This eventually will provide a catalyst to boost revenues from companies in sectors such as jewellery, fashion & food services, etc.

- **Urbanization**: India has the second largest urban population in the world at 472 million as of FY19, second only to China. But the pace at which the urban population of India is growing is a sign of good things to come for the watch market. Till FY25 it is expected that 37% (541 million) of India's population will be living in urban areas. The Urban population is expected to contribute 55% of India's GDP by FY2025, will increase to 70% by FY 2030, and is eventually forecasted to be 80% by 2050. This will lead to growth in migration and thus will make people more conscious about their status quo and will help to boost the sales of the watch segment.

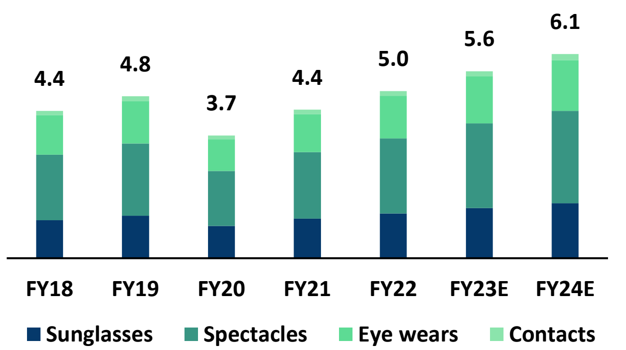
- **Growing Middle Class**: Between fiscal years 2012 and 2020, households with yearly earnings of $5,000 to $10,000 grew at a CAGR of 10%. This amount is predicted to more than double in the five years between FY 2020 and 2025. Between FY 2012 and 2020, families with yearly earnings of $10,000 to $50,000 grew at a CAGR of 20%. This broadens the target market for this sector because these are the folks that spend money on clothing and accessories..

Eyewear Industry overview

The Eyewear market includes Spectacle Lenses, Sunglasses, Spectacle Frames, and Contact Lenses for private end users. Ray-Ban, D&G, Tom Ford, Dior, Gucci, and Prada are among the most well-known names in this category. The eyewear industry is highly reliant on imports from Asia namely, China and Thailand. A few European nations account for a substantial portion of manufacturing namely Italy, France, and Great Britain.

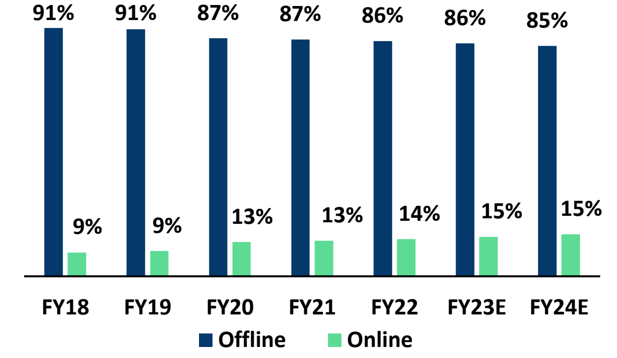
Revenue in the Eyewear market amounts to ₹406.20bn in 2022. The market is expected to grow annually by 13.3% CAGR from FY22 – 25. The largest segment in terms of revenue generation is Spectacle Lenses with a volume of ₹182.70 bn in FY22. Per person revenue in FY22 amounts to ₹288.80. The Eyewear market is expected to show robust growth in the volume of about 8.9% in FY23 and by FY25 is expected to churn out volumes amounting to 427.40 million.

Exhibit 11: Revenue trend and forecast of Indian eyecare Industry (in Billion USD)



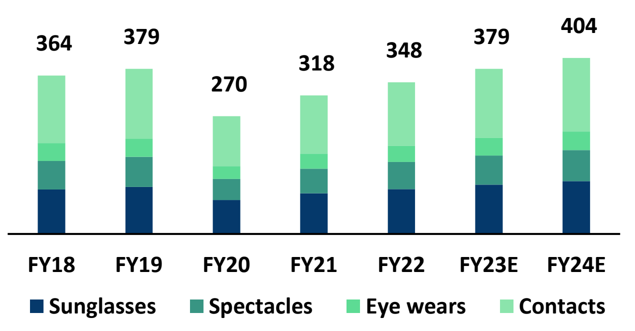
Source: IBEF and Technopak Analysis

Exhibit 12: Breakup of Online and Offline revenue for watches industry in India



Source: IBEF and Technopak Analysis

Exhibit 13: Total volume sales of eyecare industry in India (in million units)



Source: IBEF and Technopak Analysis

Total revenue generated in this segment has increased from ₹138.80 bn in FY12 to ₹406.20 bn in FY22 which marks a CAGR of 11%. The revenues are expected to reach ₹591.10 bn by FY25. Spectacles account for the highest 45% of the revenue followed by Sunglasses with 27% closely followed by Eyewear frames with 25% and the least revenue is generated by Contact lenses which are about 3% as of FY22.

The distribution majorly comprises offline channels which account for 86% of the total sales in FY22 but sales from online channels have been steadily increasing over the last few years and are expected to almost double in FY25 from FY17 levels.

Growth Drivers

- **Shifting consumer megatrends**: As eyewear largely comprises items that are associated with the latest fashion trends, the growth in the sector changes with the shifting of consumer preferences and hence is a key driver of the sales growth for this segment.
- **Technological innovations**: Technological innovations (particularly on the distribution side) are making people shift towards online buying. The features such as using Augmented Reality and Artificial Intelligence is helping people to try out their preferred eyewear from the comforts of their home has disrupted the customer buying experience and will continue to grow as technology keeps on improving and people become more tech-savvy.
- **Demographic factors**: Aging is one of the major worldwide demographic issues influencing eye care since the demand for vision correction develops and gets more difficult as people become older. Additionally, the growing usage of mobile phones and computer screens has raised the demand for both preventative and corrective eye care goods.

Company Overview

TITAN eyeplus

Titan Company Limited is an Indian luxury products company that has a presence in varied markets like jewellery, eyewear, watches and other peripheral segments. It came into existence in 1984 through the joint venture of Titan Industries Ltd. And Tamil Nadu Industrial development corporation (TIDCO).

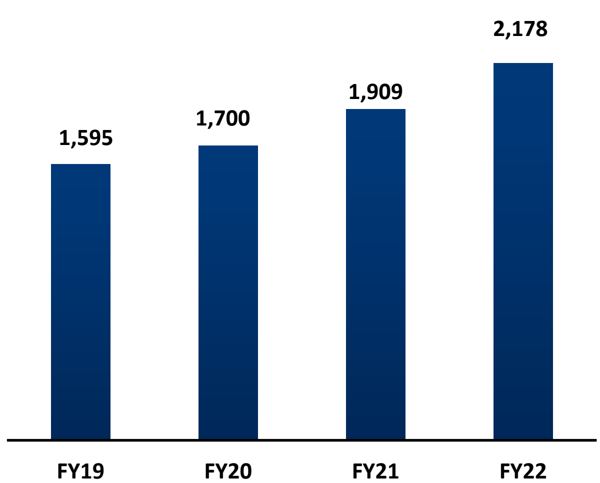
Initially, only a market leader in manufacturing watches with brands like Fastrack and Sonata to its name, Titan has forayed into the jewellery market with its flagship product Tanishq and in the eyewear segment with Titan Eye plus. It also ventured into other divisions like fragrance and clothing by introducing brands like Skinn and Taneira.

In the last 5 years, the jewellery segment has been the largest contributor to Titan's revenue, with a 88% contribution in 2022. The watches segment which previously was the major revenue driver contributed only 9% with the eyewear and other markets contributing 3%.(Exhibit 15)

The company's main strategy has been to focus on largely unorganized segments like Ethnic wear and Jewellery and then try to become a major player in that segment.

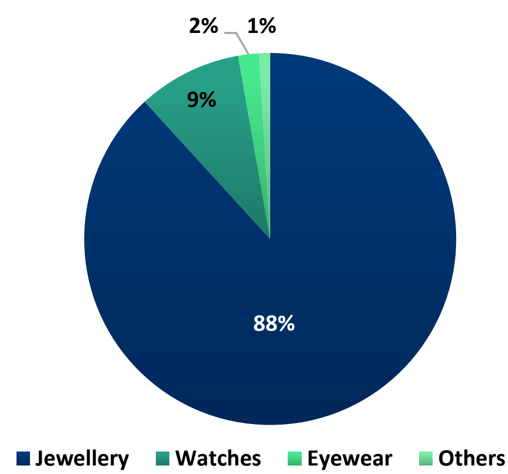
The company for the future is looking to expand its women's ethnic wear business Taneira. It is also venturing into women's bags under the Fastrack brand. The company has a very limited international presence, it is looking to change that by targeting customers of Indian origin in West Asia and North America.

Exhibit 14: Titan number of stores over the years



Source: Company Website

Exhibit 15: Titan revenue split by business segments



Source: Company Data

Revenue for the FY22 has increased by 32.1% and EBIT has increased by 80%. The market capitalization of the company has also increased by 63%. The company has a total of 2178 stores across India as of the year 2022.

It is also looking to achieve growth in core categories by targeting tier 2/3/4 cities and a customer-centric approach. It has opened stores in Sirsa (Haryana), Khanna (Punjab), Angul (Odisha) and Rudrapur (Uttarakhand) which is establishing entirely new standards in the jewellery category and delivering unmatched customer value

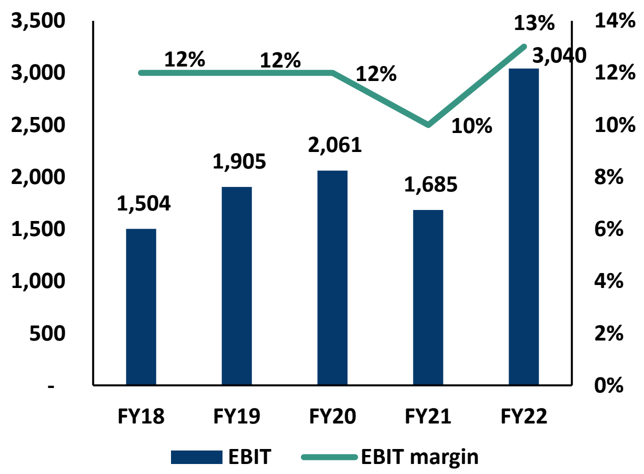
Company Overview

Jewellery

In 1996, Titan ventured into the jewellery market with the brand name 'Tanishq', aiming to tap the otherwise untapped potential of India's jewellery segment, which was unorganized at the time. The initial success of 'Tanishq' was followed by the portfolio expansion with brands like Caratlane, Mia, and Zoya catering to different customer markets. This segment of Titan is expected to grow at a CAGR of 20% by FY27 owing to the plans to pursue growth opportunities and expand its customer base in semi-urban areas as well. Titan focuses immensely on building design excellence with over 5,000 designs across various traditions and cultures of India.

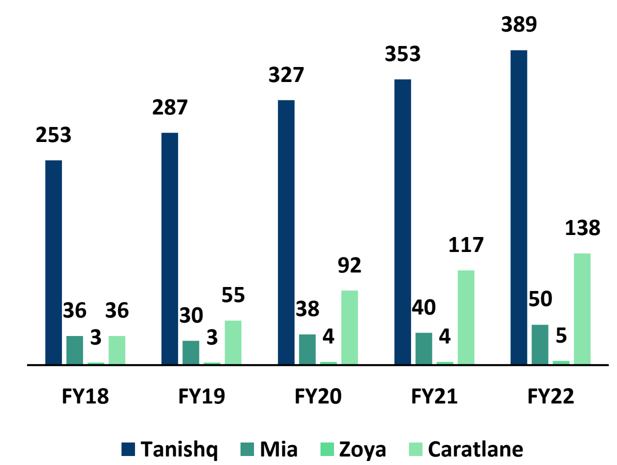
The revenue from operations of the Jewellery segment stood at Rs. 23,268 crores for the FY22 recording a growth of 35% on a Y-o-Y basis and the EBIT stood at Rs. 3,040 crores registering an increase of 80% on a yearly basis. Such huge growth figures are a result of the pent-up demand due to the Covid-19 crisis and the exponential performance of this segment of Titan. The company intends to add more than 40 stores per year to expand its presence across formats to about 600 plus stores and 300 towns by FY27. Most of these expansions are through franchisees which provide the company with better capital efficiency.

Exhibit 16: Consistently improving EBIT (Rs. Crores)



Source: Company Data

Exhibit 17: Growth in number of jewellery stores



Source: Company Website

Future potential of this segment

Tanishq has now become the gold standard for design in the industry and know for meeting complex customer design requirements. It offers jewellery in plain gold, diamond settings, gem-studded and even platinum. Management aims at growing the jewellery division by 2.5x by FY27 and it is expected that the margins in this division are expected to be stable in the next 2-3 years and then improve gradually. Titan can capitalise on rural India where the gold ownership is high and it contributes to more than 60% of the Indian jewellery demand. Titan's "Try at Home" service along with its digital investments in video selling is gaining attraction and expanding its sales online.

Exhibit 18: Building regional connect with regional celebrities

Source: Company Website

Growth drivers

- Wedding Jewellery
- Hero Cities/Markets
- Gold Exchange Scheme
- Network Expansion
- Digital Investments
- Golden Harvest Scheme
- Improved Product Mix
- Overseas Development

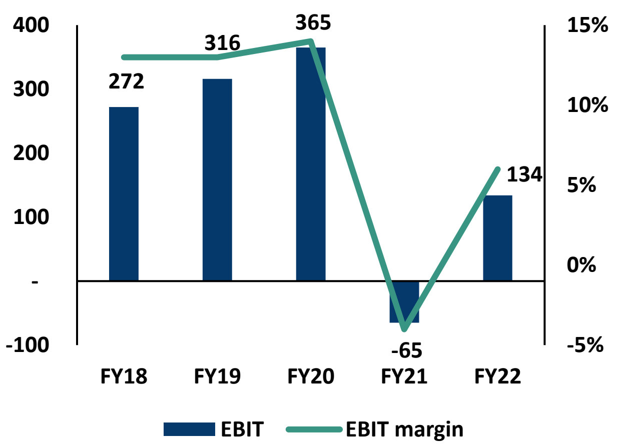
Company Overview

Watches

Titan's watches business growth over FY17-22 was merely 2.4%. However, the revenue growth in FY22 was strong at 46% despite being affected by Covid-19. The retail sales grew by 18%/15% YoY for February/March 2022. Home to diverse brands catering to different target markets, strong online and retail presence, robust manufacturing and innovation have helped the company to scale up the sales volumes. The company is primarily focusing on premiumization, driving volume, exploiting ecommerce channel (19% online of FY22 sales) and revamping and transforming the existing channels. Premiumization of brands will help Titan in maintaining a pricing growth of 2-3% in the coming years.

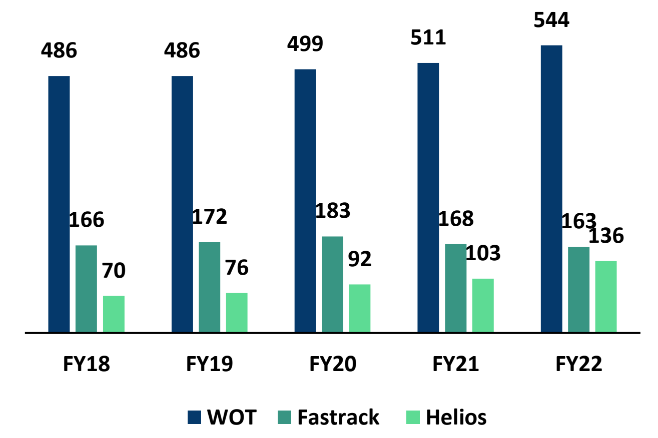
Titan also accelerated network rollout as it opened 60 new Titan World stores in FY22 and plans to add 100 more stores in FY23 to take the total count to 644 by end of FY23. They also renovated 130 stores this fiscal and plans to renovate another 140 in FY23.

Exhibit 19: EBIT (Rs. Crores) and margins %



Source: Company Data

Exhibit 20: Growth in the number of watches stores



Source: Company Website

Exhibit 21: Brand Classification of Titan in watches segment

	Men	Women	Kids
Luxury	Nebula,	Nebula	
Premium	Titan, Xylus, Tommy Hilfiger, Police, Kenneth Cole	Titan Raga, Tommy Hilfiger, Police, Olivia Burton	
Mid Premium	Titan, Fastract, Tommy Hilfiger	Titan, Fastract, Tommy Hilfiger, Anne Klein	
Mass	Sonata	Sonata	Zoop

Source: Company Website

Wearables

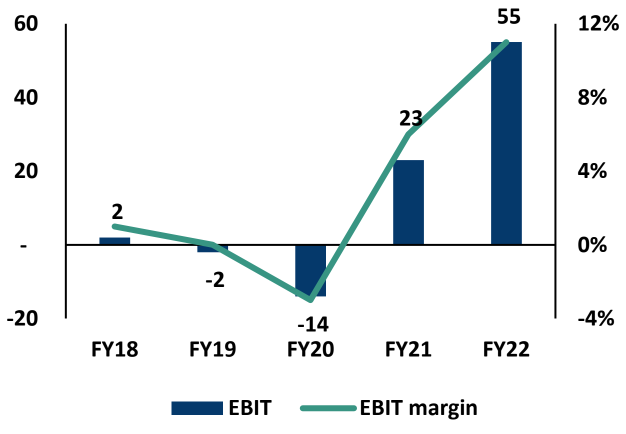
The wearables market in India has grown exponentially in the past few years at a CAGR for volume/value for the past three years of 57%/70%. The company is seeing huge growth opportunities in the coming years which is why it is scaling their domestic presence through the same channels as the watches division.
Titan currently has a portfolio of only 3 products in the range of Rs. 3000-8000 but is planning to launch 14 new products in FY23 as it sees huge growth potential in this segment.
The company.
The company has recently ventured into a booming product segment of smart audio accessories, giving competition to brands like BoAt and Samsung.

Company Overview

Eyewear

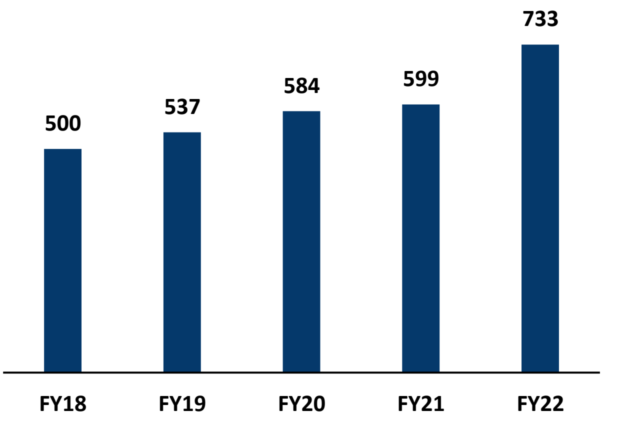
Eyewear business's performance over the last 5 years has been dull with revenues growing by a mere 4%.The company has been focusing on rebranding the division from a fashion lifestyle brand to eyewear brand over the last two years. Out of the total population of 140 crore, 60 crore needs eyewear products but only 20 crore are actually using it which gives Titan an opportunity to capture a sizeable market share in this category. The company is focusing on innovation, network expansion, increasing awareness through communication and enhancing consumer experience. Some of the innovative launches such as Titan EyeX Smart Eyewear, Titan Clearsightz and Titan OfficePro will help give the company competitive advantage. It plans to ramp up frames manufacturing from 4.1 lakh pieces to 8 lakh pieces, and lens production from 11 lakh to 16 lakh by end-FY23. The company is optimising on the opportunity via omni-channel platforms with presence in over 200 cities via Shoppers Stop, Lifestyle and Central.

Exhibit 22: Lower consumer discounts and shift in house manufacturing is improving eyewear margins (Rs. Crores)



Source: Company Data

Exhibit 23: Increasing number of Titan Eyeplus stores in eyecare network



Source: Company Website

Skinn

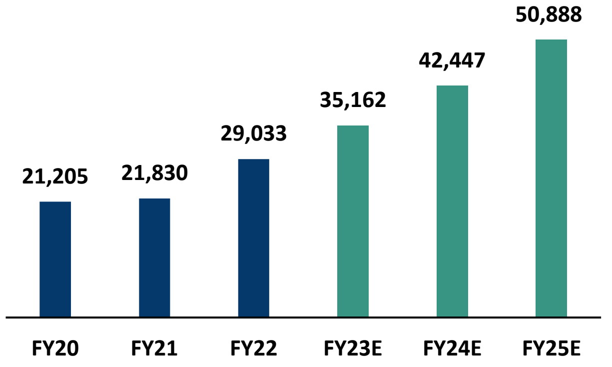
The fragrance market of India is largely underpenetrated and 60-70% of this industry is dominated by international players. Titan had launched fragrances under the Skinn brand and clocked in a revenue of Rs.1.2 bn in 2019. The perfumes offered are manufactured in France and branded perfumes at attractive pricing is the USP of Skinn. The brand has access to 3,000 Point of Sales including 32 exclusive kiosks. With 9% share in the target category, Skinn is one of the largest sellers in departmental stores.

Taneira

Taneira is Titan's women ethnic wear business which is still in its nascent stage. The company aims to make Taneira, India's most loved ethnic wear brand by FY27 which is why it is aggressively investing in this business. During FY22, Taneira opened 6 stores taking the total count to 20. It plans to launch 125 stores across India with the target of selling 15 lakh pieces worth Rs.1000+ crores by FY27. The company wants to position the brand as modern with classy and distinctive designs, available through immersive retail and a genuine omnichannel experience, and supported by Tata's reputation for reliability, quality, and responsibility. Titan is looking to transform the supply chain, by developing 100-pluscraft clusters, which are to act as the backbone of this division. Under the Fastrack brand, it is foraying into the women's bag industry with a target on achieving market leadership with Rs. 1,000 crore+ in revenues and 3.5 million units sold by FY27.

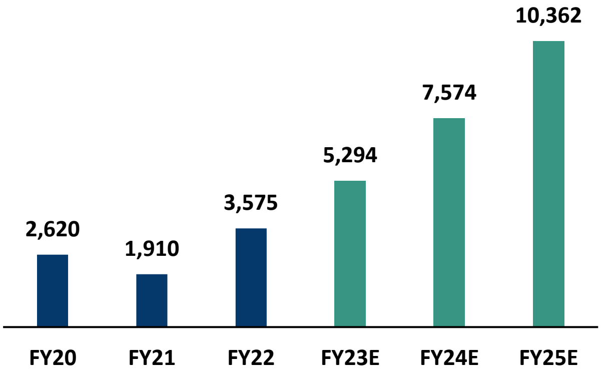
Financial Analysis

Exhibit 24: Revenue are expected to increase at a CAGR of 21% from FY22-FY25E on the back of gains in market share, new stores addition and better product mix (Rs. Crores)



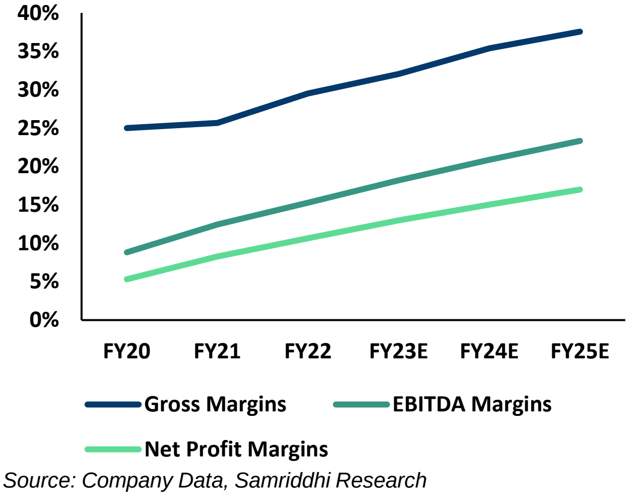
Source: Company Data, Samriddhi Research

Exhibit 25: EBITDA are expected to increase at a CAGR of 43% from FY22-FY25E led by turnaround in eyecare/caratlane margin expansion and cost cutting measures (Rs. Crores)



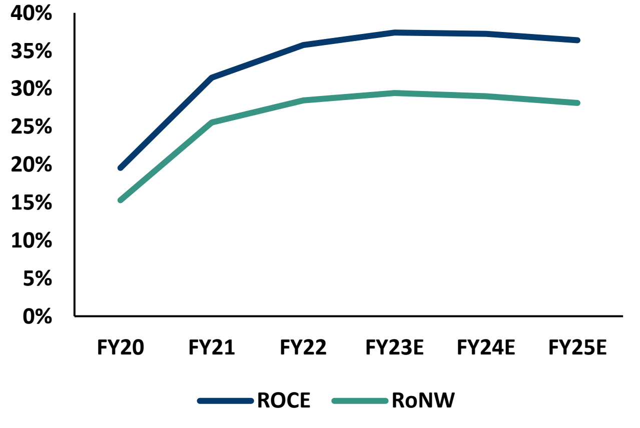
Source: Company Data, Samriddhi Research

Exhibit 26: Margins are expected to improve led by revenue recovery, cost saving program, better profitability in eyecare/caratlane and scaling down of loss making business



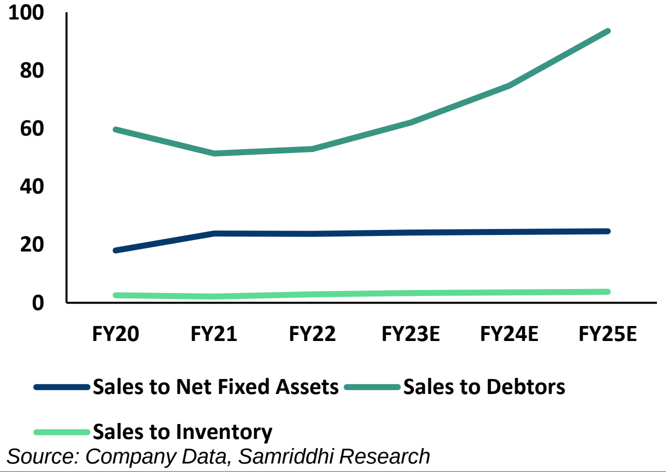
Source: Company Data, Samriddhi Research

Exhibit 27: Titan has turned from being net debt to net cash in FY21 and these measures are seen boosting company's return ratios which are going to remain stable over the next years



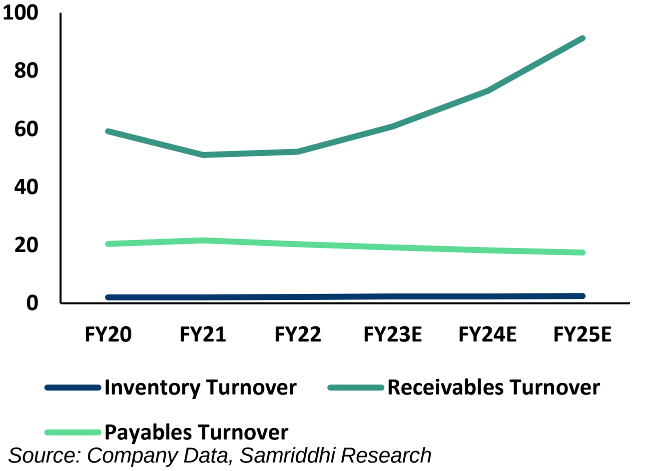
Source: Company Data, Samriddhi Research

Exhibit 28: Titan has lower sales to inventory and stable sales to net fixed assets which indicates their excellent business performance



Source: Company Data, Samriddhi Research

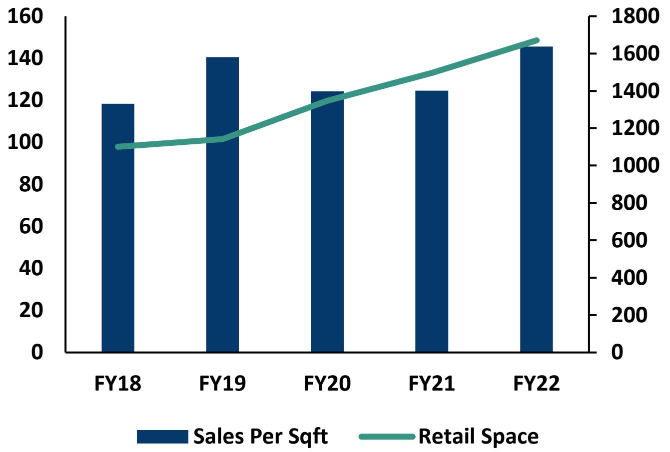
Exhibit 29: Titan has low inventory turnover and stable payables turnover but we expect receivables turnover to increase in future



Source: Company Data, Samriddhi Research

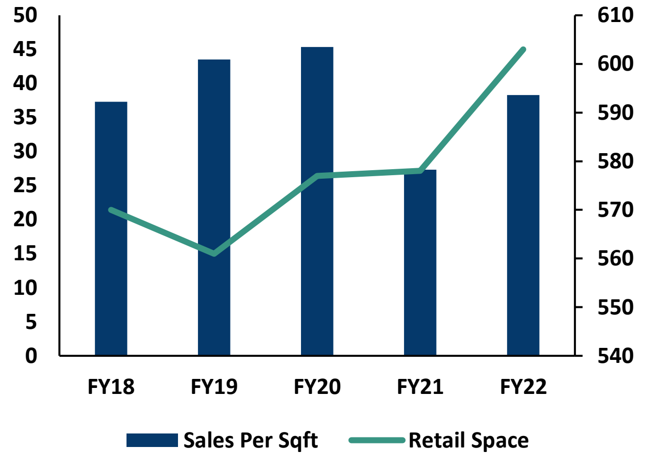
Financial Analysis

Exhibit 30: Titan is constantly increasing its jewellery retail space but sales per Sqft is stable (In 000's)



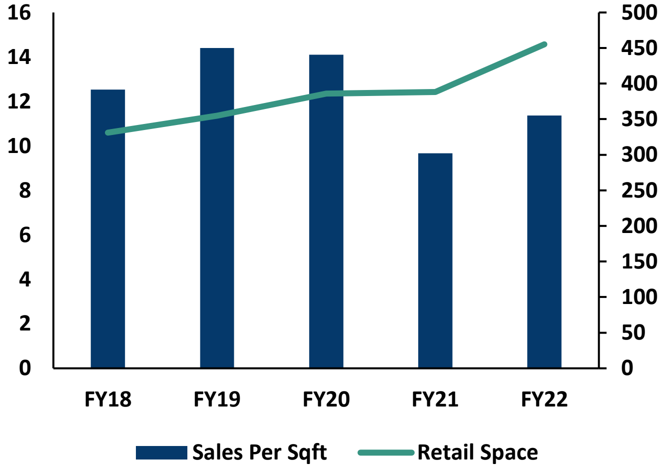
Source: Company Data, Samriddhi Research

Exhibit 31: Watches retail space and sales per Sqft over the last five years (In 000's)



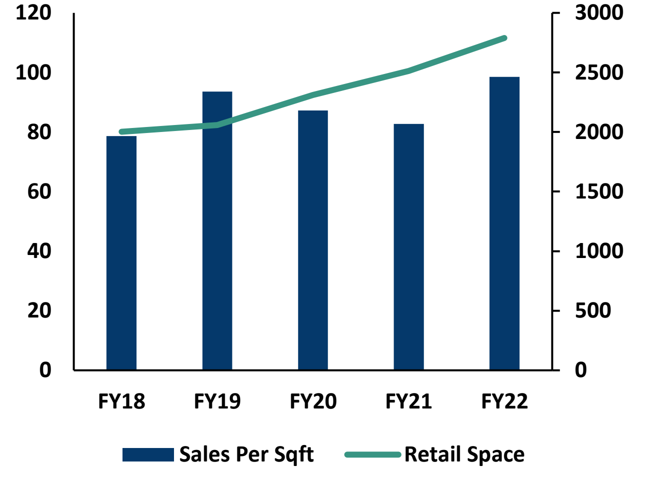
Source: Company Data, Samriddhi Research

Exhibit 32: Eyewear retail space and sales per Sqft over the last five years (In 000's)



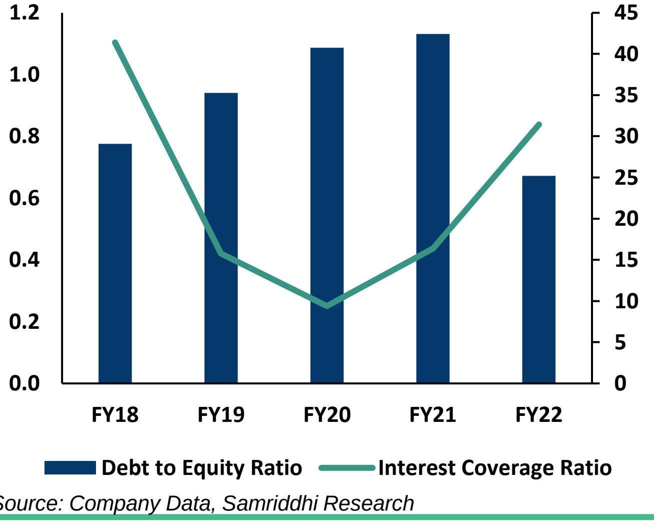
Source: Company Data, Samriddhi Research

Exhibit 33: Titan total retail space and sales per Sqft over the last five years (In 000's)



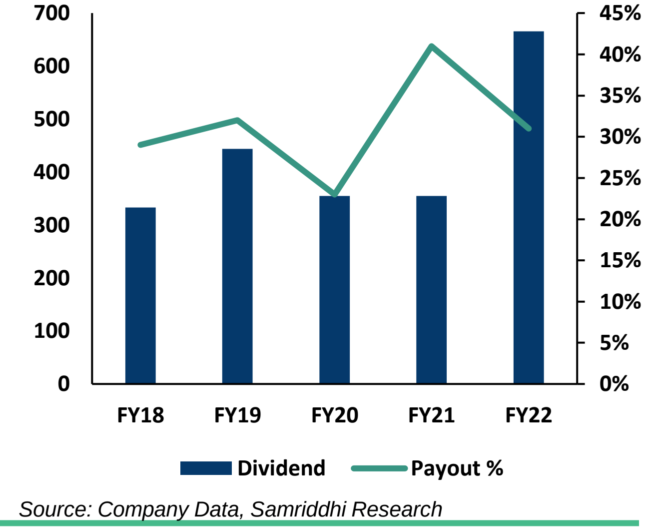
Source: Company Data, Samriddhi Research

Exhibit 34: Titan debt to equity ratio and interest coverage ratio over the last five years



Source: Company Data, Samriddhi Research

Exhibit 35: Titan dividend paid and payout % over the last five years



Source: Company Data, Samriddhi Research

Management Commentary

- The management is optimistic about the upcoming year. Due to Akshaya Tritiya and the high wedding season following the two years of pandemic-related lockdowns, they anticipate first quarter free from disruptions. In the first quarter of FY23, the company saw an increase in the sales in month of May after 2 years of lockdowns due to pandemic. Revenues saw growth of 207%. The growth in plain gold jewellery tripled and sales of studded jewellery also increased YoY. However, growth in weddings was less than that of revenue.

- With things get back to normal, the economy will benefit the clients of the business (the Middle Class and the Upper Middle Class). All businesses are hiring more frequently and offering their staff raises, which has a ripple effect on other facets of society.

- Given that the company mostly engages in sectors with low levels of formalisation, the Jewellery Division in particular has a lot of room to grow over the next five years, especially given India's rising per capita income.

- The company anticipates growth in the retail footprint, with expansion of emerging businesses.

- Expectation of increase in demand for lifestyle products, with the increase in GDP per capita. In Q1FY23, watches and wearables section witnessed ever highest quarterly revenue, having 158%YoY growth. The wedding season was fruitful for this quarter. Whereas the Indian dress sector grew by seven times around 608% for the quarter.

- The management expects the company to become a prominent name in technology products. New products have been launched under the Titan and Fastrack names in the last 6 months. The Titan EYEX, smart Eyecare product, is one of many.

- The corporation had a targeted plan for entering India's Tier 2, 3 and 4 towns. Tanishq added 36 new locations, Zoya added 1, CaratLane added 31, and Mia by Tanishq added 10 new locations. In Q1FY23, 6 new stores opened in India for Tanishq and 13 for Mia.

- Several changes introduced in watches and wearables section. New products were launched in Q1FY23, which included Titan mechanicals range and Raga Ceramics. To celebrate World Environment Day, Titan Solar watch, which works on solar power and has vegan leather straps, was launched. Alia Bhatt became the new face of the brand.

- In the Engineering and Automation subsidiary there was a 35% YoY growth with both the Aerospace and Defense (AD) and Automated Solutions (AS) growing in respect to the revenues. The AD business procured more than double of the orders inflow compared to the same quarter in the last year and is a healthy sign. The AS business however had a small double digit decline compared to the previous year in order inflow throughout the quarter.

- Campaigns like the ‘First Salary’ gifting on occasions was well received by the audience (trending on No.2 nationally) in the CaratLane subsidiary. Pan- India campaigns for new collections of ‘Rhythms of Rain’ and ‘Live a Dream’ and several regional campaigns were also well received.

Key Risks

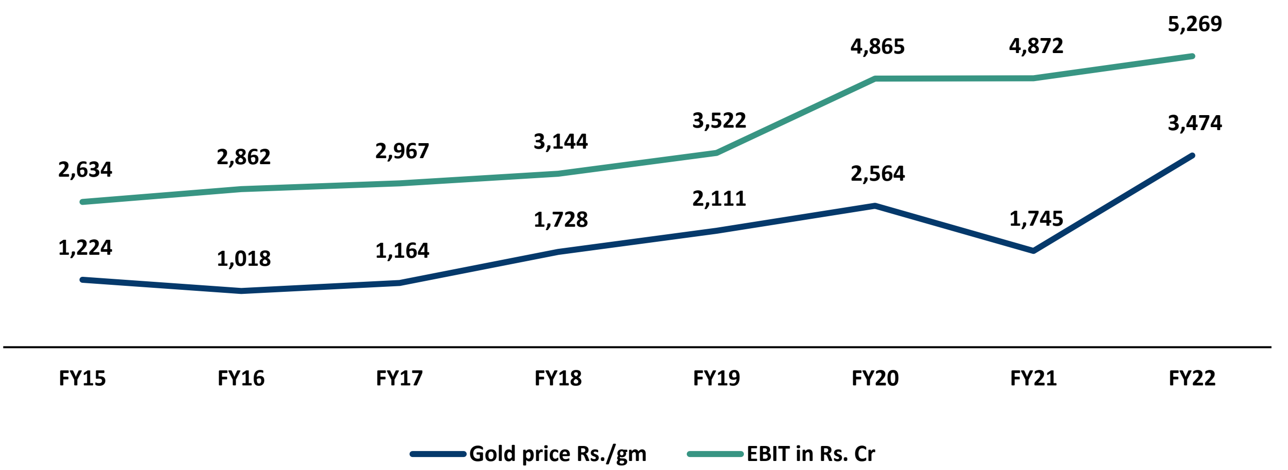
- **Market risk:** Gold is a major raw material for inputs in the products. According to the management there was also demand deferral during Q4FY22 due to higher gold price and gold price volatility. It has huge stock of gold which is unhedged to changing market rates.

- **Competition from organized and unorganized players:** In the retail jewellery market, Titan faces fierce competition from local players. The sale of jewellery in India is mostly controlled by unorganised players who are well-established in their local communities. Titan's overall market share in the jewellery industry is between 5 and 6 percent.

- **International markets risk:** Due to the Company's recent foreign market expansion, any local regulatory changes in their respective areas could have an effect on its business operations.

- **Regulatory risks in the jewellery industry:** The domestic gold market is affected by unfavourable regulatory constraints. Over the past four years, there have been a number of unfavourable regulatory developments, including prohibitions on the importation of bullion, funding for metal loans, requirements for PAN declaration on transactions, and the introduction of excise taxes.

Exhibit 36: Direct relationship between Gold price and Titan's operating profit (EBIT)



Source: BankBazaar and Statista
The coefficient of correlation in the last 8 years is 0.84 which is strongly positive in nature. With an increase in the prices of gold, a critical input for production an increase in EBIT portrays a positive picture in terms of managing risk.

- **Cyber security risks at the Company level:** The business management relies on network communications and data storage. Protecting and maintaining the integrity of corporate network from malicious or targeted attacks is a major concern.

- **Geopolitical risks:** The political environment is unpredictable and can have significant impacts on the business. There are several effects of the Russia-Ukraine conflict, including job losses in Surat, Gujarat, India, which is a centre for diamond polishing. The supply of rough diamonds to Gujarat's diamond polishing industry has been hampered by the ongoing conflict.

- **Franchisee Business:** Despite being the world's fifth-largest integrated owned watch brand maker, Titan's expansion depends heavily on the franchises. The management, finance, renewal of franchise agreements on acceptable terms are significant drivers of risk.

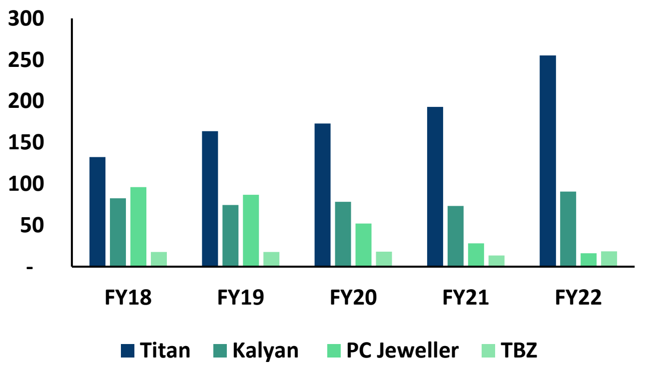
- **Alternatives to investment:** Introduction of sovereign gold bond scheme by government and investment in Gold ETFs decreased consumer preference for real gold. In the past also, the company's operating performance has also been moderated by these regulatory adjustments.

Competitor Analysis

Consistently outperformed other organized peers

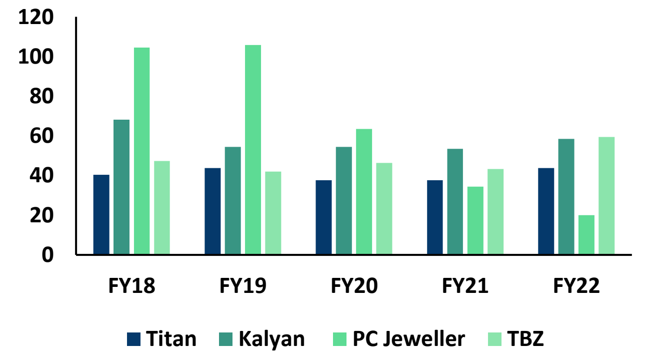
Titan is India's leading lifestyle company and among the most admired and respected corporates in the country. It has established leading positions in the jewellery, watches & eye care, led by trusted brands and superior customer experience. Its growth has been mainly driven by product innovation, sustainable development, supporting local artisans and communities. It has also diversified into wearables, Indian dress wear and fragrances and fashion accessories.

Exhibit 37: Among the competitors, Titan has highest revenue and revenue growth in last five years (in INR Billions)



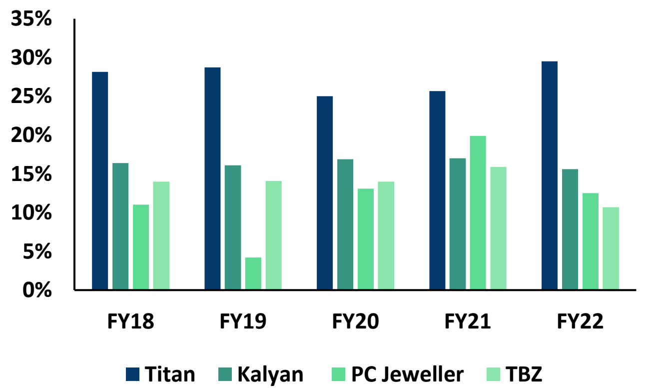
Source: Company Data, Samriddhi Research

Exhibit 38: Revenue per store is less for Titan as compared to other competitors where Kalyan Jewellers has highest revenue per store (in INR Crores)



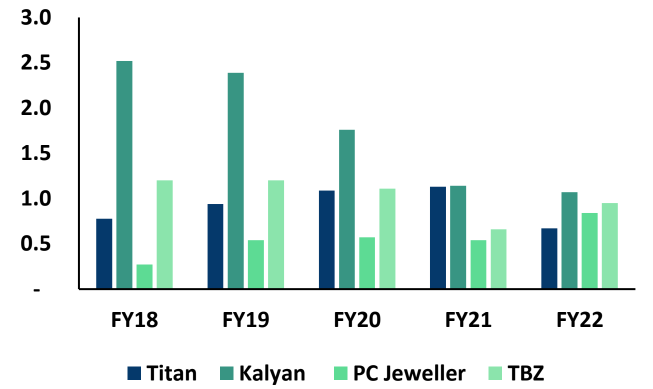
Source: Company Data, Samriddhi Research

Exhibit 39: Gross Margins of Titan are the highest in the industry almost 14% higher than its closest peer



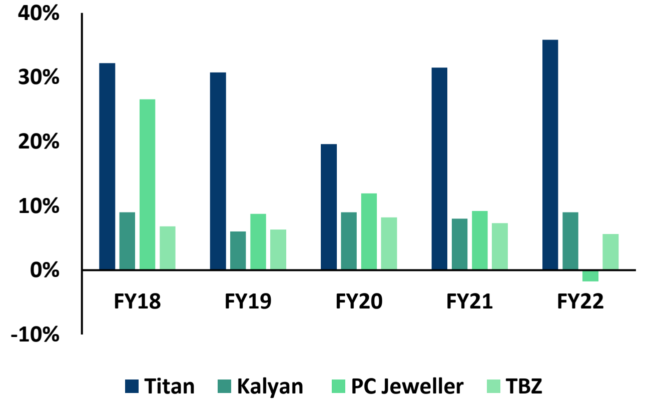
Source: Company Data, Samriddhi Research

Exhibit 40: Comparison of debt to equity ratio of Titan with its peers for last five years



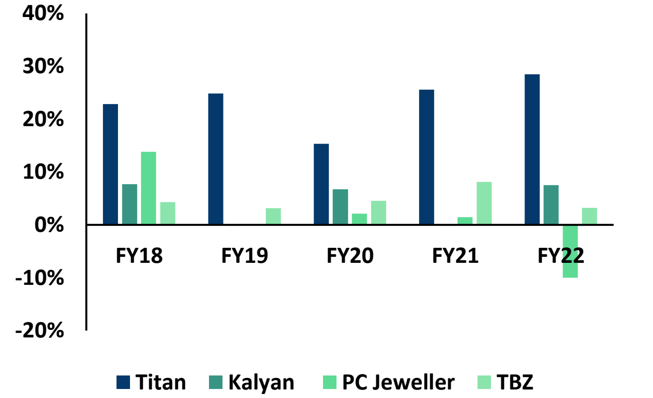
Source: Company Data, Samriddhi Research

Exhibit 41: Titan has maintained a healthy ROCE, which reflects its ability to ensure optimization of resources



Source: Company Data, Samriddhi Research

Exhibit 42: Titan has consistently maintained its ROE which indicates that it is efficiently using equity capital



Source: Company Data, Samriddhi Research

Valuations

Methodology

We valued Titan using the Discounted Cash Flow and Relative Valuation based on historical prices, giving equal weightage to both the methods. We arrived at a target price of INR 2,989, a 14.3% upside compared to the current market price of INR 2614 (as on 08th September, 2022) and recommend a buy call.

Exhibit 43: DCF Valuation (INR Crores)

Discounted Cash Flow	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E
EBIT	5,084	7,326	10,069	13,493	17,993
Less: Tax	1,271	1,831	2,517	3,373	4,498
NOPAT	3,813	5,494	7,552	10,120	13,494
Depreciation & Amortization	210	248	293	348	413
Working Capital Changes	-639	244	888	1,223	1,041
Capex	260	312	373	445	529
FCFF	4,402	5,186	6,584	8,799	12,337
FCFF Growth		17.8%	27.0%	33.6%	40.2%
PV of FCFF as on March 2021	3,865	3,998	4,457	5,230	6,439
Discounting Factor	0.88	0.77	0.68	0.59	0.52
Periods	1	2	3	4	5

The current valuations fully capture the future potential of the company with free cash flow to firm growing at a CAGR of 29.4% for the forecasted 4 years. The revenue growth also shows a 28.9% CAGR for the next 5 years which is led by according to our estimates.

We also expect the PAT Margin to improve from 8.3% in FY22 to 19.1% in FY27 as a result of which the ROE expands from 25.5% in FY21 to 27.4% in FY27.

Exhibit 44: DCF Valuation (INR crores except value per share)

Value Per Share	
WACC	**13.9%**
FCFF - 2027E	12,337
Terminal Growth Rate	**4.0%**
Terminal Value	7,92,899
PV of Terminal Value	1,28,375
PV of FCFF	1,34,591
Present Debt	7,048
Enterprise Value	**2,62,966**
Equity Value	2,55,918
No. of Outstanding Shares	88.8
Fair value per share	**2,883**
Current Market Price (08/09/22)	**2,614**
Upside (%)	***10.3%***

Exhibit 45: WACC Calculation

WACC Calculation	
Cost of Equity	14.1%
Post tax cost of debt	5.6%
WACC	**13.9%**
Terminal Growth Rate	**4.0%**

Exhibit 46: Sensitivity Analysis of target price

	WACC				
Terminal	**12.9%**	**13.4%**	**13.9%**	**14.4%**	**14.9%**
3.0%	3,200	2,960	2,750	2,552	2,378
3.5%	3,286	3,034	2,813	2,606	2,424
4.0%	3,383	3,115	2,883	2,665	2,475
4.5%	3,491	3,206	2,960	2,731	2,531
5.0%	3,613	3,308	3,045	2,803	2,592

Valuations

Condensed Financial Projections

Exhibit 47: Income Statement Summary (INR crores)

Particulars	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E
Revenue from operations	28,799	34,638	41,603	49,705	59,349	70,466
Other income	234	523	844	1,173	1,512	1,864
Total Income	**29,033**	**35,162**	**42,447**	**50,878**	**60,861**	**72,330**
Cost of raw materials	21,641	24,939	29,122	33,302	38,577	44,041
Other Expenses	25,458	29,868	34,873	40,515	47,021	53,924
EBITDA	**3,575**	**5,294**	**7,574**	**10,362**	**13,840**	**18,405**
EBITDA (%)	12.4%	15.3%	18.2%	20.8%	23.3%	26.1%
Finance costs	218	168	135	101	68	34
Depreciation and Amortization expense	213	210	248	293	348	413
PAT	**2,384**	**3,687**	**5,393**	**7,476**	**10,069**	**13,469**
PAT(%)	8.3%	10.6%	13.0%	15.0%	17.0%	19.1%

Exhibit 48: Relative Valuation based on historical prices

Metric	5 Yr mean	FY23 E	FY24 E
P/E	62.7	2,603	3,808
EV/EBITDA	42.1	2,444	3,525

	Weights	Mean
DCF	50%	2,883
Relative P/E	25%	3,205
Relative EV/EBITDA	25%	2,985
Final Share Price		**2,989**
Current Market Price		**2,614**
Upside (%)		**14.3%**

Exhibit 49: Football Field Analysis

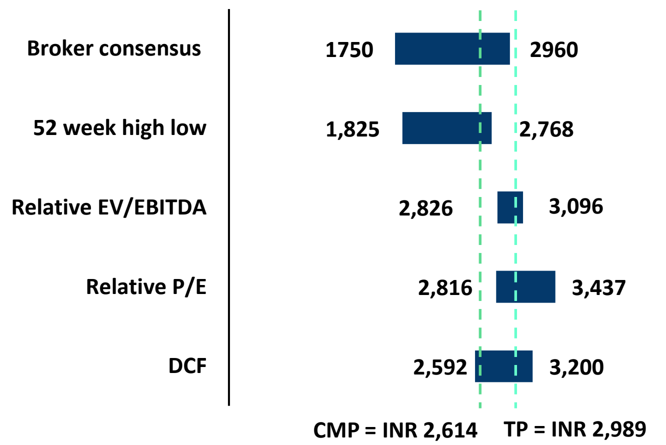


Exhibit 50: Key Ratios

Particulars	FY22	FY23 E	FY24 E	FY25 E	FY26 E	FY27 E
Valuation (x)						
EV/Sales	9.1	7.6	6.3	5.3	4.4	3.7
EV/EBITDA	73.6	49.7	34.7	25.4	19.0	14.3
P/E	111.3	72.0	49.2	35.5	26.4	19.7
P/BV	0.32	0.23	0.16	0.12	0.08	0.06
EPS	26.9	41.5	60.7	84.2	113.4	151.7
Return Ratios (%)						
RoCE	31.5%	35.8%	37.4%	37.2%	36.4%	35.6%
RoE	25.5%	28.5%	29.4%	29.0%	28.1%	27.4%
Margin Ratios (%)						
Gross Margins	25.7%	29.5%	32.0%	35.4%	37.5%	40.1%
EBITDA Margins	12.4%	15.3%	18.2%	20.8%	23.3%	26.1%
PAT Margins	8.3%	10.6%	13.0%	15.0%	17.0%	19.1%
Liquidity Ratios (x)						
Current Ratio	1.7	2.0	2.6	3.3	4.4	6.0
Quick Ratio	0.1	0.3	0.6	0.9	1.5	2.5
Solvency Ratios (x)						
Debt to Equity Ratio	1.1	0.7	0.4	0.3	0.2	0.1

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Junior Analysts

Aditi Singhal	Lakshay Agarwal	Samarth Agrawal
Aman Gupta	Mehak Nagpal	Vrishti Gupta
Devansh Kapadia	Raghav Satija	Vinay Tiwari
Eshaan Arora	Shreya Prasad	