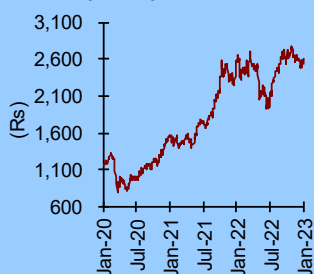


ICICI Securities Limited
is the author and
distributor of this report

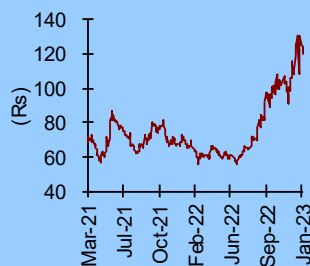
Sector Update

Consumer Staples & Discretionary

Titan (ADD)



Kalyan Jewellers (BUY)



Research Analysts:

Manoj Menon

manoj.menon@icicisecurities.com
+91 22 6807 7209

Varun Singh

varun.singh@icicisecurities.com
+91 22 6807 7649

Karan Bhuwania

karan.bhuwania@icicisecurities.com
+91 22 6807 7351

Akshay Krishnan

akshay.krishnan@icicisecurities.com
+91 22 6807 7632

INDIA



Consumer Staples & Discretionary

Kalyan outperforms Titan in 3QFY23. Likely beginning of trajectory change

Both Titan and Kalyan reported decent demand prints in 3QFY23 update. Titan's jewellery performance of ~11% YoY growth in revenues was similar to Kalyan's (standalone) revenue growth of ~12% YoY. However, when we compare 3Y CAGR for both of these companies, Titan's 3Y CAGR of 21% is superior to Kalyan's 3Y CAGR 11%. Titan's new consumer recruitment and store expansion (+22 stores in 3Q) are key drivers for outperformance. Kalyan's 3Y CAGR performance, though lagged that of Titan, needs to be seen in the context of lower store expansion benefit (explained below). We note that the 1) pace of growth for both brands has decelerated as compared to last few quarters and 2) second half of the quarter saw some deceleration due to increase in gold prices and some deceleration in consumer discretionary spends in general. We believe, Jewellery segment can outperform (other consumer discretionary segments) as it is relatively immune (inelastic wedding purchases, gold as an investment asset etc.) to general slowdown in consumer discretionary spends.

Both players have highlighted improvement in studded share which should augur well for gross margin expansion – with strong growth rates, EBIT margin print should also be good (operating leverage).

Kalyan for the quarter saw better growth in non-south markets (store expansion led) which augur well for its margins (natural tailwind for Kalyan, benefit should keep accruing for few years). Secondly, Kalyan highlighted continued competitive intensity in metal pricing. Lastly, in the modern casualwear segment CaratLane witnessed 50% YoY revenue growth while Candere witnessed a revenue decline of 5% YoY.

We believe implementation of Jewellery Hallmarking (JH) can further accelerate formalisation (surprising consensus, once again); refer notes [JH1](#) and [JH2](#).

3QFY23 performance comparison

► **The numbers:** Titan and Kalyan (Standalone) reported robust (jewellery) revenue growth prints of 11% and 12% YoY, respectively. For 9MFY22, Titan and Kalyan's (standalone) revenue growth was ~42% and ~32% YoY, respectively.

► **Store addition benefit:** We believe Kalyan has a lower benefit of store addition in revenue growth (3Y CAGR) versus Titan as it didn't expand (store count) much during FY19-21.

During FY19-21, Kalyan added only 3 stores in India while Titan added 66 Tanishq stores. We note that in last 12 months, Titan added 29 new Tanishq stores while Kalyan added 15 stores in India.

Kalyan has accelerated store expansion from FY22 (opened 17 stores in FY22 and 12 stores in 9MFY23); it is further targeting to add ~52 new stores in CY23E (expects 11 new franchised stores across non-south markets in next 3 months; it has further signed 25 more LOIs with potential franchise partners for store openings in FY24). All of the 5 stores opened in 3Q are non-south.

► **Good growth in studded and other key trends:** Both Titan and Kalyan have witnessed strong growth in studded, which augurs well for margins, in our view. Besides, Titan has highlighted (1) healthy new buyer growth in festive period, (2) higher value purchases in studded category, and (3) Wedding sales grew in-line with jewellery division sales. Kalyan has highlighted that competitive intensity in metal pricing continues. We note that Kalyan had highlighted earlier that competitive intensity had led them to pass on the one-time benefits of customs duty cut due to pressure in metal pricing which is dependent on board rate (decided by local associations).

Valuation and risks

We value stocks in our coverage universe on DCF (WACC and TG ranging from 10-13%, 3-6% respectively) except Adani Wilmar, Godrej Consumer and Tata Consumer, which we value on SoTP basis. Key upside risk is: better-than-expected gross margins due to correction in input prices. Key downside risk is unexpected irrational competition due to deceleration in general consumption demand.

Table 1: Comparison of revenues (Rs mn) and revenue growth rate (%)

(Rs mn)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	% YoY	%QoQ	9MFY22	9MFY23	% YoY
Titan (Jewellery)	85,630	61,320	76,000	72,030	95,049	11%	32%	171,360	243,079	42%
Kalyan (India)	28,801	23,988	27,190	28,409	32,257	12%	14%	66,573	87,856	32%
Kalyan (Consol.)	34,354	28,571	33,326	34,729	38,921	13%	12%	79,609	106,976	34%

Source: Company, I-Sec research

Table 2: Comparison of store addition

	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	% YoY
Titan	382	389	395	403	411	8%
Kalyan (India)	121	124	127	131	136	12%
Kalyan (Consol.)	151	154	158	163	169	12%

Source: Company, I-Sec research

In case of industry/sector reports or a report containing multiple stocks, the rating/recommendation for a particular stock may be based on the last released stock specific report for that company."

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, Manoj Menon, MBA, CMA; Varun Singh, MBA, Karan Bhuwania, MBA; Akshay Krishnan, MBA; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.