

Luxury | Q4FY24 Result Update

Challenging times ahead; SELL

- Titan's Q4FY24 EBITDA was in-line with our estimate, however, revenue and APAT came ahead of our anticipation. The studded contribution remained steady at 33%. A 170bps drop in GM was a negative surprise during the quarter.
- Despite recent surge in gold prices, the company would continue to focus on accelerating volumes. However, taking cues from anecdotal evidences, we expect volumes to remain under pressure. Further, margins are also likely to remain under pressure due to increased discounting and competition.
- We have reduced our FY25/26E EPS estimate by 2.7/1.3% at Rs 51.5/61.5 to factor in increased gold prices and its impact on volumes, and higher discounting to addressed escalated competition. We downgrade the stock to 'SELL' from Reduce valuing at 54x FY26E EPS and arrive at a TP of Rs 3,322.

Revenue and APAT ahead, EBITDA in-line with our estimate

Net revenue grew by 16% YoY to Rs 112.6bn, ahead our estimate— deviation in revenues was primarily due to bullion sales. The 4-Yr revenue CAGR stood at 26.3%. GM contracted by 170bps to 21.2% in Q4FY24. A 50/40bps decline in employee cost/A&P spends resp. was partially offset by 170bps increase in RM cost. Consequently, EBITDA margin contracted by 90bps to 9.9%. EBITDA expanded by 6.2% to Rs 11.1bn – in-line our estimate. APAT grew by 7.1% to Rs 7.9bn – 3.4% ahead our estimate.

Muted margin performance across segments

During the quarter, jewellery and watches reported revenue growth, however eyecare division was flat. (1) Jewellery exhibited 17.3% YoY revenue growth at Rs 101.2bn and EBIT stood at Rs 10.9bn, up 9.2% in Q4FY24, (2) Watches business reported 7.9% YoY increase in revenues to Rs 9.4bn; the segment posted EBIT of Rs 800mn, 18.4% decline vs Q4FY23 and (3) Eyewear reported 0.6% YoY sales growth to Rs 1.7bn and registered EBIT of Rs 80mn – growth of 300% on YoY basis. Despite increased competition and discounting, management believes that jewellery business would post double digit revenue growth and it would report 12-13% EBITDA margin in FY25E.

Q4FY24 Result (Rs Mn)

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Revenue	1,12,570	97,040	16.0	1,30,520	(13.8)
Total Expense	1,01,480	86,600	17.2	1,15,950	(12.5)
EBITDA	11,090	10,440	6.2	14,570	(23.9)
Depreciation	1,200	950	26.3	1,180	1.7
EBIT	9,890	9,490	4.2	13,390	(26.1)
Other Income	1,500	1,040	44.2	1,390	7.9
Interest	1,620	740	118.9	1,330	21.8
EBT	9,770	9,790	(0.2)	13,450	(27.4)
Tax	1,910	2,450	(22.0)	3,050	(37.4)
RPAT	7,861	7,341	7.1	10,401	(24.4)
APAT	7,861	7,341	7.1	10,401	(24.4)
			(bps)		(bps)
Gross Margin (%)	21.2	22.9	(170)	21.7	(53)
EBITDA Margin (%)	9.9	10.8	(91)	11.2	(131)
NPM (%)	7.0	7.6	(58)	8.0	(99)
Tax Rate (%)	19.5	25.0	(548)	22.7	(313)
EBIT Margin (%)	8.8	9.8	(99)	10.3	(147)

CMP	Rs 3,534
Target / Downside	Rs 3,322 / 6%
NIFTY	22,476

Scrip Details

Equity / FV	Rs 890mn / Rs 1
Market Cap	Rs 3,145bn
	USD 38.0bn
52-week High/Low	Rs 3,887/ 2,657
Avg. Volume (no)	9,55,279
Bloom Code	TTAN IN

Price Performance	1M	3M	12M
Absolute (%)	(5)	(2)	33
Rel to NIFTY (%)	(5)	(5)	4

Shareholding Pattern

	Sep'23	Dec'23	Mar'24
Promoters	52.9	52.9	52.9
MF/Banks/FIs	10.1	10.4	10.5
FIs	19.1	18.9	19.0
Public / Others	18.0	17.8	17.6

Valuation (x)

	FY24P	FY25E	FY26E
P/E	88.7	68.6	57.4
EV/EBITDA	65.0	49.5	41.7
ROE (%)	26.8	27.1	25.1
RoACE (%)	17.2	17.3	17.5

Estimates (Rs bn)

	FY24P	FY25E	FY26E
Revenue	471.1	568.8	667.8
EBITDA	50.2	66.1	78.2
PAT	35.4	45.8	54.8
EPS (Rs.)	39.8	51.5	61.5

VP - Research: Sachin Bobade
Tel: +91 22 40969731
E-mail: sachinb@dolatcapital.com

Associate: Jyoti Amonkar
Tel: +9122 61764822
E-mail: jyotia@dolatcapital.com

Associate: Akshay Patel
Tel: +9122 40969753
E-mail: akshayp@dolatcapital.com

Exhibit 1: Actual V/s DART Estimates

Particulars (Rs mn)	Actual	Estimates	Variance (%)	Comments
Revenue	1,12,570	1,03,022	9.3	Deviation in revenue was primarily due to bullion sales
EBITDA	11,090	11,393	(2.7)	Gross margin was below estimate
EBITDA margin %	9.9	11.1	(120bps)	
APAT	7,860	7,605	3.4	Other income was higher than estimate

Source: Company, DART

Exhibit 2: Change in estimates

Particulars (Rs mn)	FY25E			FY26E		
	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenue	5,68,786	5,78,240	(1.6)	6,67,847	6,70,335	(0.4)
EBIDTA	66,062	67,439	(2.0)	78,177	78,724	(0.7)
EBIDTA margin (%)	11.6	11.7	0bps	11.7	11.7	0bps
PAT	45,827	47,109	(2.7)	54,762	55,504	(1.3)
EPS (Rs)	51.5	52.9	(2.7)	61.5	62.4	(1.3)

Source: Company, DART

We have lowered our FY25/26E revenue estimates to factor in pressure on volumes due to the rise in gold prices, however, we have maintained our margin estimates in line with management guidance. In line with the revision in EBITDA, we have revised our APAT and EPS estimates.

Exhibit 3: Segmental Performance

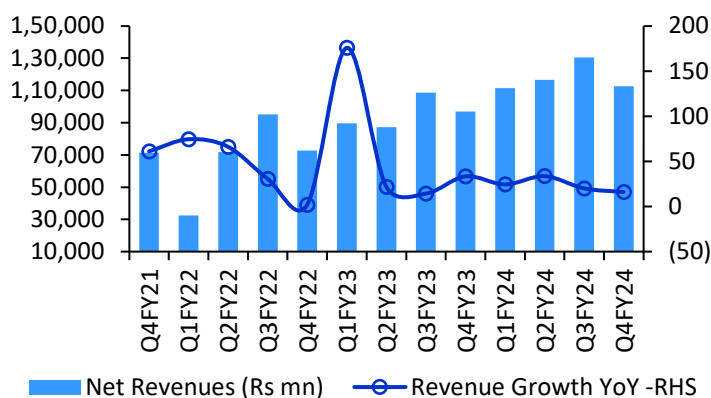
Revenue (Rs mn)	Q4FY24	Q4FY23	YoY %	Q3FY24	QoQ %
Jewellery	1,01,250	86,310	17.3	1,18,290	(14.4)
Watches	9,400	8,710	7.9	9,820	(4.3)
Eyewear	1,660	1,650	0.6	1,670	(0.6)
Others	970	770	26.0	1,120	(13.4)
EBIT (Rs mn)					
Jewellery	10,890	9,970	9.2	14,320	(24.0)
Watches	800	980	(18.4)	550	45.5
Eyewear	80	20	300.0	140	(42.9)
Others	(220)	(330)	NA	(200.0)	NA
EBIT Margin (%)					
Jewellery	10.8	11.6	(80bps)	12.1	(140bps)
Watches	8.5	11.3	(270bps)	5.6	290bps
Eyewear	4.8	1.2	360.0bps	8.4	(360bps)
Others	(22.7)	(42.9)	NA	(17.9)	NA

Source: Company, DART

Earning call KTAs

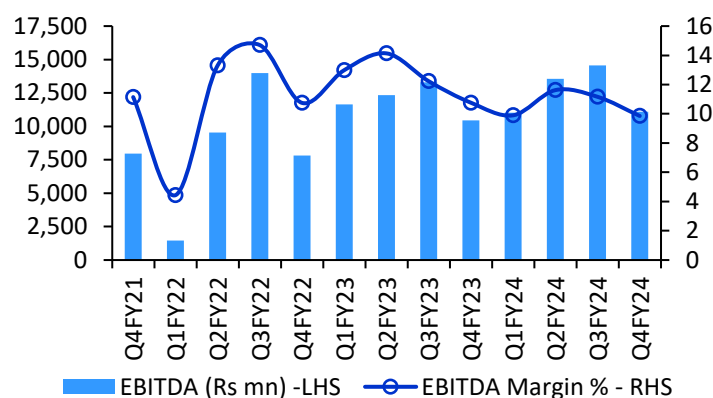
- During the quarter, jewellery segment grew by 17.3% YoY driven by healthy double-digit buyer's growth (new buyer contribution was 54%), while ASP witnessed single-digit growth. Moreover, studded jewellery maintained a constant share of 33%, out of which high value studded jewellery is 14% in Q4FY24. Going ahead, in Q1FY25E, demand may remain impacted due to election and fewer wedding days. We believe that jewellery segment will continue to maintain double digit growth trajectory in FY25E mainly led by gold price increase.
- The jewellery margins in Q4FY24 contracted by 80bps to 10.8% as a result of higher consumer promotion and offers due to competitive intensity. Going forward, the management believes that the jewellery business would achieve margins of 12-13%.
- Under the gold exchange program, contribution from non-Tanishq gold exchange was 31% (30% in Q4FY23) and contribution including Tanishq gold exchange was at 40-41% during Q4FY24. We believe, increase in enrolment of gold exchange program would lead to upselling in turn benefitting the brand.
- Titan's watches and wearables grew by 7.9% in Q4FY24 led by analog watches/ wearables segment growth of 9/3% YoY driven by premiumisation and higher average price realisation. Moreover, premium brands – Titan and Helios grew in line with business growth. EBIT margin contracted by 270bps to 8.5% as a result of higher discount by major players and unorganised player due to higher inventory. Going ahead, management expects excess stock to settle down around Diwali.
- Eyecare business grew by 0.6% YoY. The lenses category grew by ~4% YoY, however frames and sunglasses declined by ~2 and ~12% respectively. EBIT stood at Rs 800mn in Q4. During the quarter, Titan Eye+ launched 'Affordable Fashion' showcasing an extensive variety of affordable frames paired with Blue Safe Lenses.
- During FY24, International business posted revenue of \$120mn (90% Jewellery). Titan's International footprint in jewellery segment stood at 16 stores. Going ahead, it is expected to increase to 30 stores.
- During the quarter, the company added (inc. international business) 13/16/10 stores across Tanishq/Mia/Caratlane respectively to take the store count to 479/178/272. Currently, Tanishq has presence across 268 towns. Going ahead, the management believes that it has the potential to expand its present beyond 300 towns. In watches and wearable segment, 10/14/20 stores were added across Titan World/Helio/Fastrack in Q4FY24.

Exhibit 4: Revenue Performance

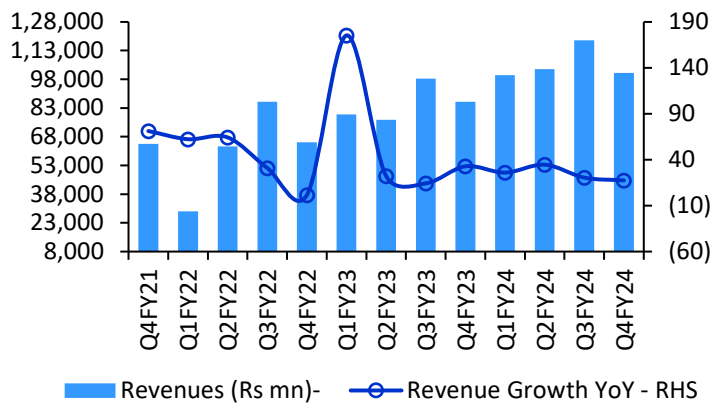


Source: Company, DART

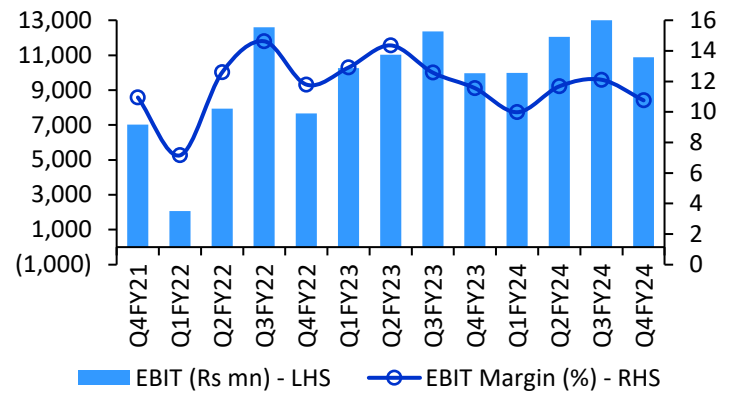
Exhibit 5: EBITDA & EBITDA Margin



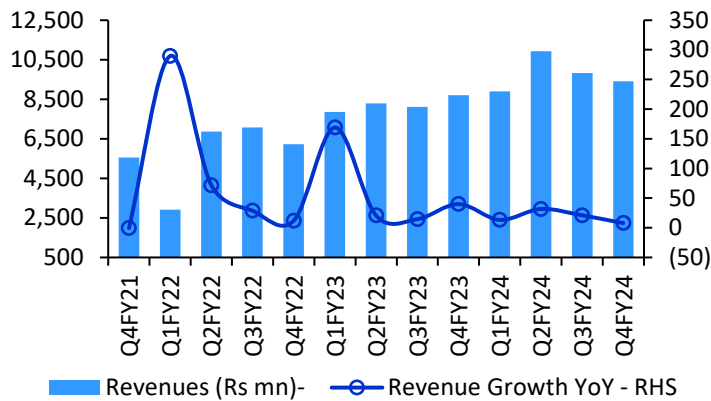
Source: Company, DART

Exhibit 6: Jewellery Revenue Performance


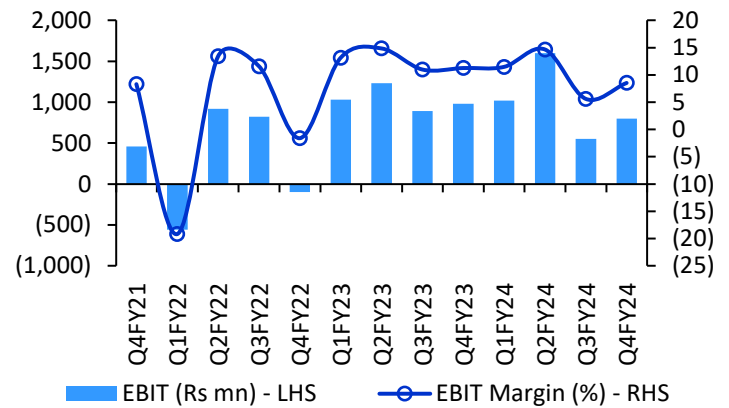
Source: Company, DART

Exhibit 7: Jewellery EBIT Performance


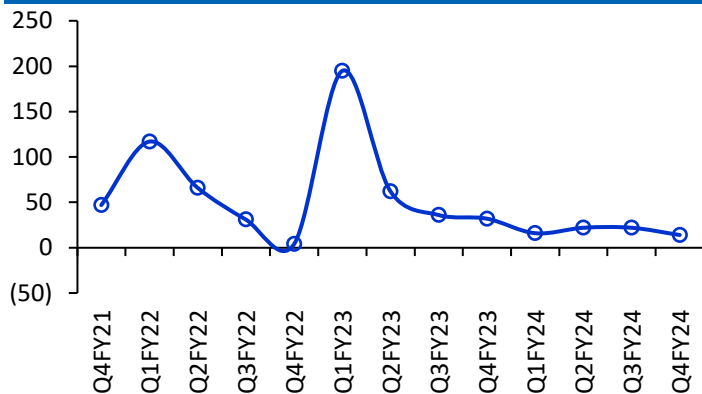
Source: Company, DART

Exhibit 8: Watch Revenue Performance


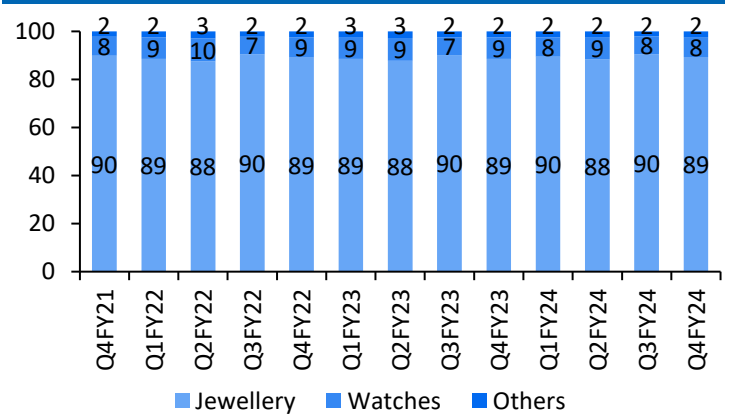
Source: Company, DART

Exhibit 9: Watch EBIT Performance


Source: Company, DART

Exhibit 10: Tanishq Like to Like Growth


Source: Company, DART

Exhibit 11: Segmental Revenue Contribution


Source: Company, DART

Financial Performance

Profit and Loss Account

(Rs Mn)	FY23A	FY24P	FY25E	FY26E
Revenue	3,82,700	4,71,140	5,68,786	6,67,847
Total Expense	3,35,000	4,20,900	5,02,725	5,89,670
COGS	2,90,460	3,69,420	4,40,260	5,16,114
Employees Cost	13,620	15,030	17,442	19,725
Other expenses	30,920	36,450	45,023	53,832
EBIDTA	47,700	50,240	66,062	78,177
Depreciation	3,640	4,470	4,474	4,509
EBIT	44,060	45,770	61,587	73,668
Interest	2,400	4,800	5,014	5,288
Other Income	2,990	5,100	5,355	5,623
Exc. / E.O. items	0	0	0	0
EBT	44,650	46,070	61,929	74,002
Tax	11,320	10,630	16,101	19,241
RPAT	33,330	35,440	45,827	54,762
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	33,330	35,440	45,827	54,762

Balance Sheet

(Rs Mn)	FY23A	FY24P	FY25E	FY26E
Sources of Funds				
Equity Capital	890	890	890	890
Minority Interest	0	0	0	0
Reserves & Surplus	1,19,050	1,43,680	1,92,325	2,43,091
Net Worth	1,19,940	1,44,570	1,93,215	2,43,981
Total Debt	78,620	1,26,610	1,27,110	1,27,610
Net Deferred Tax Liability	(1,440)	(1,530)	(2,530)	(2,530)
Total Capital Employed	1,97,120	2,69,650	3,17,795	3,69,061

Applications of Funds

Net Block	21,710	26,970	24,996	22,987
CWIP	1,170	810	810	810
Investments	32,590	78,130	63,130	63,130
Current Assets, Loans & Advances	1,93,970	2,21,180	2,94,228	3,57,154
Inventories	1,49,520	1,68,740	2,41,578	2,86,230
Receivables	9,080	9,370	8,809	10,963
Cash and Bank Balances	7,920	8,050	4,517	16,231
Loans and Advances	18,910	24,420	25,291	29,696
Other Current Assets	8,540	10,600	14,034	14,034
Less: Current Liabilities & Provisions	52,320	57,440	65,369	75,020
Payables	9,650	9,430	16,865	19,386
Other Current Liabilities	42,670	48,010	48,504	55,634
<i>sub total</i>				
Net Current Assets	1,41,650	1,63,740	2,28,859	2,82,134
Total Assets	1,97,120	2,69,650	3,17,795	3,69,061

E – Estimates

Important Ratios

Particulars	FY23A	FY24P	FY25E	FY26E
(A) Margins (%)				
Gross Profit Margin	24.1	21.6	22.6	22.7
EBIDTA Margin	12.5	10.7	11.6	11.7
EBIT Margin	11.5	9.7	10.8	11.0
Tax rate	25.4	23.1	26.0	26.0
Net Profit Margin	8.7	7.5	8.1	8.2
(B) As Percentage of Net Sales (%)				
COGS	75.9	78.4	77.4	77.3
Employee	3.6	3.2	3.1	3.0
Other	8.1	7.7	7.9	8.1
(C) Measure of Financial Status				
Gross Debt / Equity	0.7	0.9	0.7	0.5
Interest Coverage	18.4	9.5	12.3	13.9
Inventory days	143	131	155	156
Debtors days	9	7	6	6
Average Cost of Debt	3.3	4.7	4.0	4.2
Payable days	9	7	11	11
Working Capital days	135	127	147	154
FA T/O	17.6	17.5	22.8	29.1
(D) Measures of Investment				
AEPS (Rs)	37.4	39.8	51.5	61.5
CEPS (Rs)	41.5	44.8	56.5	66.6
DPS (Rs)	7.5	10.0	4.5	4.5
Dividend Payout (%)	20.0	25.1	8.7	7.3
BVPS (Rs)	134.8	162.4	217.1	274.1
RoANW (%)	31.2	26.8	27.1	25.1
RoACE (%)	20.1	17.2	17.3	17.5
RoAIC (%)	26.1	20.3	21.4	22.1
(E) Valuation Ratios				
CMP (Rs)	3534	3534	3534	3534
P/E	94.4	88.7	68.6	57.4
Mcap (Rs Mn)	31,45,171	31,45,171	31,45,171	31,45,171
MCap/ Sales	8.2	6.7	5.5	4.7
EV	32,15,871	32,63,731	32,67,764	32,56,550
EV/Sales	8.4	6.9	5.7	4.9
EV/EBITDA	67.4	65.0	49.5	41.7
P/BV	26.2	21.8	16.3	12.9
Dividend Yield (%)	0.2	0.3	0.1	0.1
(F) Growth Rate (%)				
Revenue	40.6	23.1	20.7	17.4
EBITDA	45.5	5.3	31.5	18.3
EBIT	50.3	3.9	34.6	19.6
PBT	52.3	3.2	34.4	19.5
APAT	49.4	6.3	29.3	19.5
EPS	49.4	6.3	29.3	19.5

E – Estimates

Cash Flow

Particulars	FY23A	FY24P	FY25E	FY26E
Profit before tax	44,650	46,070	61,929	74,002
Depreciation & w.o.	3,640	4,470	4,474	4,509
Net Interest Exp	2,400	4,800	5,014	5,288
Direct taxes paid	(11,420)	(1,140)	(16,101)	(19,241)
Change in Working Capital	(21,172)	(19,460)	(62,838)	(41,561)
Non Cash	0	0	0	0
(A) CF from Operating Activities	18,098	34,740	(7,523)	22,998
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(2,780)	(5,200)	(2,500)	(2,500)
Free Cash Flow	15,318	29,540	(10,023)	20,498
(Inc.)/ Dec. in Investments	(14,965)	(41,140)	15,000	0
Other	0	0	0	0
(B) CF from Investing Activities	(17,745)	(46,340)	12,500	(2,500)
Issue of Equity/ Preference	2	0	0	0
Inc./(Dec.) in Debt	7,510	43,610	500	500
Interest exp net	(2,400)	(4,800)	(5,014)	(5,288)
Dividend Paid (Incl. Tax)	(6,660)	(8,880)	(3,996)	(3,996)
Other	(1,375)	(14,020)	0	0
(C) CF from Financing	(2,923)	15,910	(8,510)	(8,784)
Net Change in Cash	(2,570)	4,310	(3,533)	11,714
Opening Cash balances	10,490	7,920	8,050	4,517
Closing Cash balances	7,920	8,050	4,517	16,231

E – Estimates

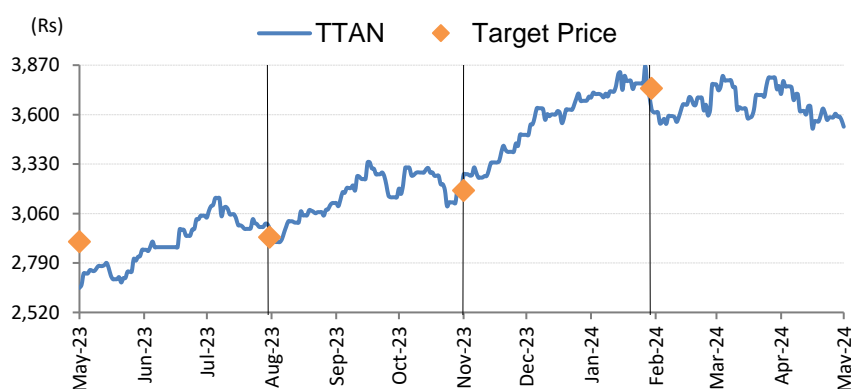
Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
May-23	Accumulate	2,906	2,654
Aug-23	SELL	2,930	2,977
Nov-23	SELL	3,185	3,275
Feb-24	REDUCE	3,742	3,627

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
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Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
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CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Jubbin Shah	VP - Equity Sales	jubbins@dolatcapital.com	+9122 4096 9779
Girish Raj Sankunny	VP - Equity Sales	girishr@dolatcapital.com	+9122 4096 9625
Pratik Shroff	AVP - Equity Sales	pratiks@dolatcapital.com	+9122 4096 9621
Rajeev Lala	AVP - Equity Sales	rajeevl@dolatcapital.com	+9122 4096 9767
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Naman Midtown, A-1203, 12th Floor, Senapati Bapat Marg, Prabhadevi, Mumbai 400013

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Regd. office: 1401-1409, Dalal Street Commercial, Block 53 (Bldg. No.53E) Zone-5, Road-5E, Gift City, Sector 9, Gandhinagar-382355 Gujarat, India.

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com