

# Pick of the week



## Titan Company Ltd

### Recommendation

**Buy**

### Time Period

**12 Months**

### Current Price

**₹ 962**

### Target Price

**₹ 1215**

### Potential Upside

**26.3%**

## Investment Argument

- Standalone revenues stand at Rs44.3 bn, about 9% higher than our preliminary estimate of Rs4070 cr. Gross margins of 30.1%, up 283 bps yoy, were much ahead of KIE estimate. Lower discounting and higher studded share (on the back of activation) drove increase in margin. Gross profit grew 5% yoy. EBITDA came in at Rs600 cr, strong growth of 20% yoy on a reported basis.
- 4QFY20 print can be called a healthy one in the context of the lockdown impacting nearly a sixth of the quarter. The company responded well on the costs front to mitigate the damage even as working capital did take a knock. Interestingly, pre-lockdown performance in both jewelry and watches segments suggests acceleration versus 3Q/9MFY20 trends.
- Short-term revenue and margin prognosis for TITAN's segments is tricky, to say the least. Consumer sentiment could remain subdued for a while even in the post-Covid era, whenever we get there. While acknowledging these challenges, TITAN management is focusing more on the opportunities in the new normal, the primary one being the scope for accelerated market share gains on the back of the trust its brands command and the balance sheet pressures its competitors are likely to face.
- The company intends to maximize this tailwind by stepping up its efforts on (1) leveraging the loyalty program (Encircle) database, (2) new engines of growth – omni-channel and affordable jewelry (not gross margin dilutive), and (3) pushing the existing engines of growth harder – wedding, high-value studded, gold exchange program, etc.
- COVID Update: More than 1,400 out of 1,800 stores are open. Tanishq has opened 280+ stores out of its 329 stores. In the Tanishq stores (which have been open for four weeks now), average daily sales have recovered to 80% of normative levels. This number is lower at 44-46% for World of Titan, Fastrack and Eyeplus. TITAN is also negotiating rent reductions and waivers; some of the landlords have moved to revenue share basis. They are looking to reduce costs; they can also look to shut some subpar stores, if required. The company is also looking to enhance its omni-channel play. DCF-based FV stands revised down to Rs. 1,215.