Titan Company

Outstanding performance in Jewelry aided by soft base

Titan Company (TTAN) has released its pre-quarterly update for 4QFY21. Here are the key highlights:

Continued momentum after a strong festive season

- TTAN recorded strong sales growth of 60% YoY for 4QFY21, aided by the low base of Mar’20. Sales growth stood at 36% YoY over Jan–Feb’21.
- 4QFY21 sales growth was further supported by a large B2B gold coin order, which contributed ~8% to growth.
- The Watches & Wearables and Eyewear divisions have also made good progress on recovery.

Jewelry: Outstanding performance

- The division continued the strong sales momentum in 4QFY21, reflecting robust market share gains. A plunge in gold prices during the quarter gave further impetus to consumer demand in the industry.
- 4QFY21 segment sales were up ~70%, led by a soft base. Retail sales (ex-B2B sales) grew ~32% YoY over Jan–Feb’21. The B2B order contributed 10% to the segment’s sales growth in 4QFY21.
- Strong growth has been witnessed in both metro and non-metro towns. Wedding jewelry has been a strong growth driver for FY21 – its share in overall jewelry revenue has increased meaningfully vis-à-vis last year.
- The division’shero market strategy (to increase market share of Tanishq) of making various local market-specific interventions has resulted in strong growth in Tamil Nadu, which has traditionally been a stronghold of regional jewelers.
- Despite 70% loss in retail sales in 1QFY21 (due to lockdown), the division has exceeded the retail sales of the previous year on a full-year basis.
- While the ticket size has normalized v/s the initial period of the year after the lockdown, it is still much better than last year’s levels. Significantly, the number of buyers (invoices) moved from near full recovery in 3QFY21 to strong double-digit growth in 4QFY21 – these two developments have resulted in strong revenue generation. With the strong growth in the number of buyers, Tanishq’s Golden Harvest Scheme (GHS) enrollments have also posted growth in the strong double digits.
- Segmental margins for 4QFY21 were impacted due to a lower studded ratio YoY, and the one-off impact of a reduction in customs duty.
- The division added 26 Tanishq stores on a net basis in FY21, with retail space additions at ~123k sq. ft.

Watches & Wearables: Recovery rate continues to improve

- The division posted a YoY recovery rate of ~90% over Jan–Feb’21. Sales for 4QFY21 were flat YoY.
- The e-commerce channel continues to have a higher salience, with all other channels also making good progress. Metros and mall stores have seen better recovery QoQ.
- The division has entered a new category Audio Accessories with the launch of Over The Head (OTH) headphones and Truly Wireless (TWS) earphones.
- In FY21, the division added 13 World of Titan (WOT) stores, added 11 Helios stores, and closed 13 Fastrack stores; on a net basis, it added 1.5k sq. ft. of retail space.
**Eyewear: Achieved normalcy**

- The division posted YoY sales growth of ~20% YoY in 4QFY21. Growth over Jan–Feb'21 stood at 4% YoY.
- Growth was driven by robust expansion in the Titan Eye Plus channel.
- In FY21, the division added 15 stores on a net basis, with the addition of about 1.8k sq. ft. of retail space.

**New businesses**

- New businesses saw a recovery rate of ~80% YoY in 4QFY21.
- **Taneira** – The brand continued to recover well – it saw 93% recovery over Jan–Feb'21. During the quarter, it operated out of 14 stores, covering six cities.
- Fragrances – Sales have recovered ~80% YoY. Trade has seen good recovery, especially over Feb–Mar'21. The LFS channel continues to lag behind other channels in terms of sales.
- Accessories – Sales have recovered ~50% YoY. Recovery has been slow in two of the biggest channels: trade and LFS. LFS has been impacted by slower walk-in traffic at malls. Trade is affected by the lack of demand for "guys" bags – a significant contributor to this channel. Demand for "guys" bags is expected to be tepid until schools and colleges are reopened. The e-commerce business has grown 2.3x.
- **CaratLane** – This delivered 60% growth in 4QFY21, continuing its strong growth trajectory. Despite the challenges at the start of the year, CaratLane’s B2C business grew at 26% YoY in FY21. The brand has also significantly scaled up its international business – it delivered 10x growth in FY21 v/s FY20. 25 new stores were added in FY21, taking the total count to 117 across 44 cities in India.

**Other points**

- In May'20, mid- to senior-level employees had taken pay cuts to help the company tide over the uncertain environment. In light of better-than-expected recovery, TTAN has fully reinstated the cash component of the salaries that were cut with a retrospective effect.
- TEAL posted revenue decline of 26% in 4Q as the Aerospace business has continued to face challenges due to continued headwinds in the industry. However, the Automation business vertical is showing signs of good revival.
- The company successfully exited the joint venture with Montblanc during the quarter and closed the transaction.

**Valuation and view**

- TTAN’s strong sales growth of 60% YoY for 4QFY21 and 70% YoY in the Jewelry segment was far ahead of our expectations of 39% and 48%, respectively.
- TTAN’s penetration in the Tamil Nadu market – a stronghold of regional players – is another positive development.
- The recent sharp correction in gold prices bodes well for consumer demand in the near term. However, restrictions imposed on account of the second COVID wave may play spoilsport for the next few months; any developments in this regard are key observables.
- While margins would be impacted in 4QFY21, this is largely on account of one-off factors. The margin outlook is expected to improve unless a second round of restrictions disrupts the business once again.
- The Watches & Wearables and Eyewear segments are also on track to recover – the segments posted 90% and 104% recovery, respectively, over Jan–Feb'21.
- The structural investment case for TTAN remains extremely strong. Maintain **Buy**, with TP of INR1,800 per share at 60x FY23E EPS.