

Titan Company Ltd. Q2FY19 Earnings Note

*Jewellery outperforms but margins
impacted*

Result Highlight

- Revenue increased 27.9%YoY from Rs 3,533 crore to Rs 4,522 crore (QoQ it increased 2.6% from Rs 4,078 crore).
- The EBITDA increased 11.2% YoY from Rs 422 crore to Rs 469 crore (QoQ it decreased 2.9% from Rs 483 crore). The EBITDA margins fell by 157bps from 11.94% in Q2FY18 to 10.37% in Q2FY19 . Sequentially, it fell 59bps from 10.96 %.
- The PAT increased 9% YoY from Rs 278 crore in Q2FY18 to Rs 303 crore in Q2FY19 (QoQ it fell 8% from Rs 329 crore). The PAT margins fell by 116bps YoY from 7.86% in Q2FY18 to 6.70% in Q2FY19 (QoQ it fell 76bps from 7.46%).

Management commentary

- The gross margin in Jewellery declined as the plain jewellery segment grew much faster than the studded segment. Studded jewellery's contribution declined to 35% compared to 37% YoY. Grammage grew 24% and price grew by 6% YoY.
- High advertising spends and one-time franchisee compensation in the Jewellery segment during the quarter weighed on margins.
- The company added 4 Tanishq stores during Q2FY19 (14 during H1). Store addition is expected to be faster in H2. The company is confident of achieving its target of 40+ stores by FY19E.
- Impact of one-offs was 20% on the bottom-line.
- The festive season of Dussehra and Diwali saw a 25%+ sales growth this year.

- Strong top-line growth coupled with cost control measures led to a 220bps improvement in Watch margins. However, margins of the Watch segment will be 15-16% in FY19E due to higher ad expenses on account of new launches.
- In Q2FY18, Retail sales stood at Rs 27,000 crore while primary stood at Rs 31,000 crore. The delta Rs 4,000 crore was due to early festive season last year. This year buying was in October due to delayed festive season. Retail Jewellery sales grew 38% YoY during Q2FY19 while it increased 29% in October'18. The company reaffirmed its guidance of 25% top-line growth for FY19E.
- Titan invested Rs 145 crore in the IL&FS group in May and June '18 in inter-corporate deposits when its cash surplus peaked at around Rs 1,900 crore. Even though they come up for redemption in November-December 2018, consequent to the recent developments, it has made a provision of Rs 29 crore, representing 20% of the investment as a measure of abundant caution.
- The company's customer count in eyewear was at 2.4mn in FY18. The company targets to increase it to 3.7mn by FY19E (+54%). Eyewear volumes are higher at low price points, which impacts margins.
- Titan grew better than the industry, which grew 5-15% during Q2FY19. During H1, the industry grew in single digits in Retail while Titan grew 18%.

Other businesses

- The fragrance business continues to be in a high growth phase and also continues to be the best seller in its category in departmental chain stores. “Amalfi Bleu”, the latest variant launched in July-2018 has been very well received.
- The Taneira business has been able to partner with 300+ vendors for its sourcing needs across 50 weaving clusters. The third store, and the first one outside Bengaluru, was opened in Ambience mall in Delhi.

Caratlane (67% owned Subsidiary)

- Caratlane's revenue recorded a 35% YoY growth, primarily due to network expansion.
- Gross margins have improved significantly for the quarter, on the back of better pricing and product mix.
- Caratlane continues to invest in marketing and brand building.

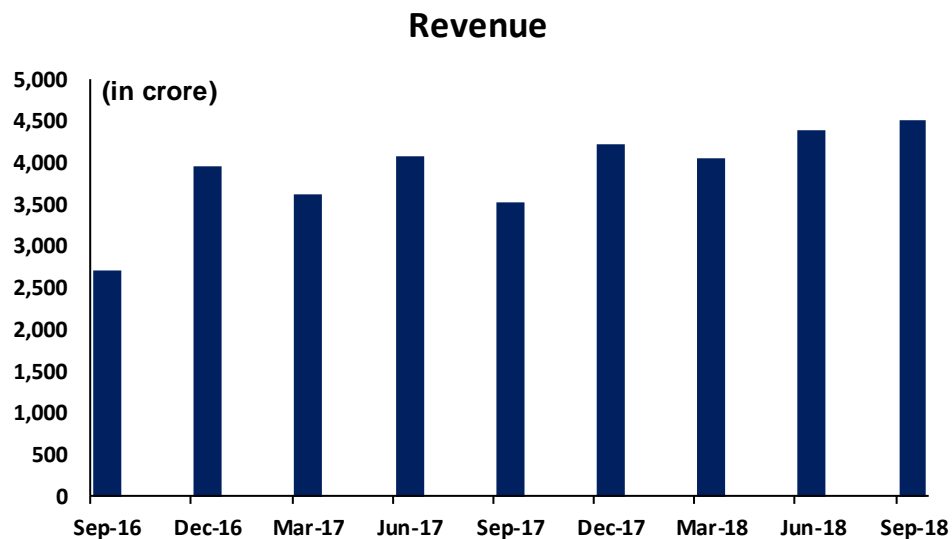
Titan Engineering and Automation Ltd (TEAL) - 100% owned Subsidiary

- TEAL had an excellent quarter with the revenues growing by 88% YoY, helped by a low base. Both the segments, aerospace and defence (A&D) and Automation solution business grew strongly and are expected to do well in the current fiscal. The current order book gives full visibility of FY'19 targeted revenue. The pipeline of orders is also strong.
- For the automation solution business segment, market conditions continue to be very encouraging. The current enquiry level is at an all-time high from both existing and new customers.

Valuation

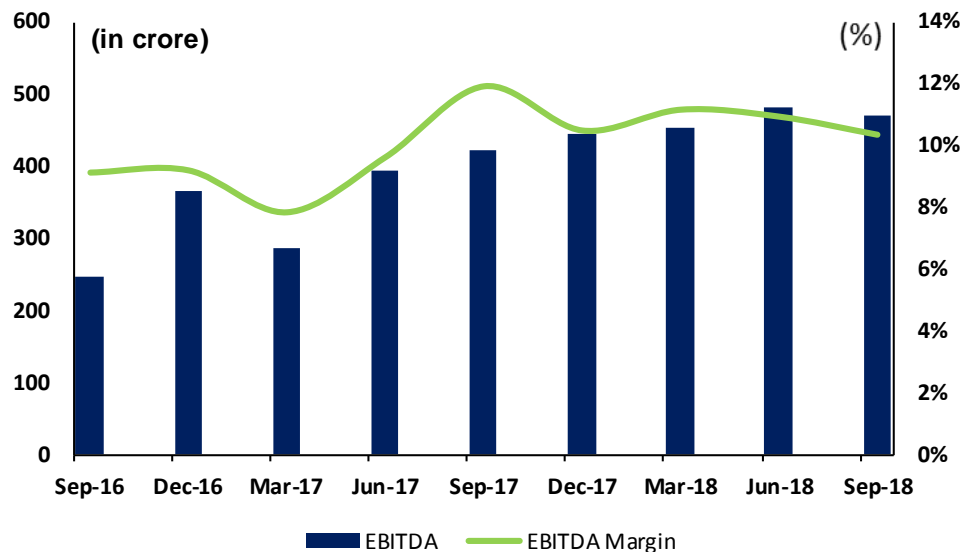
At the current market price of Rs 892, it is trading at 43.33 FY20E PE.

Revenue jumps 28% YoY



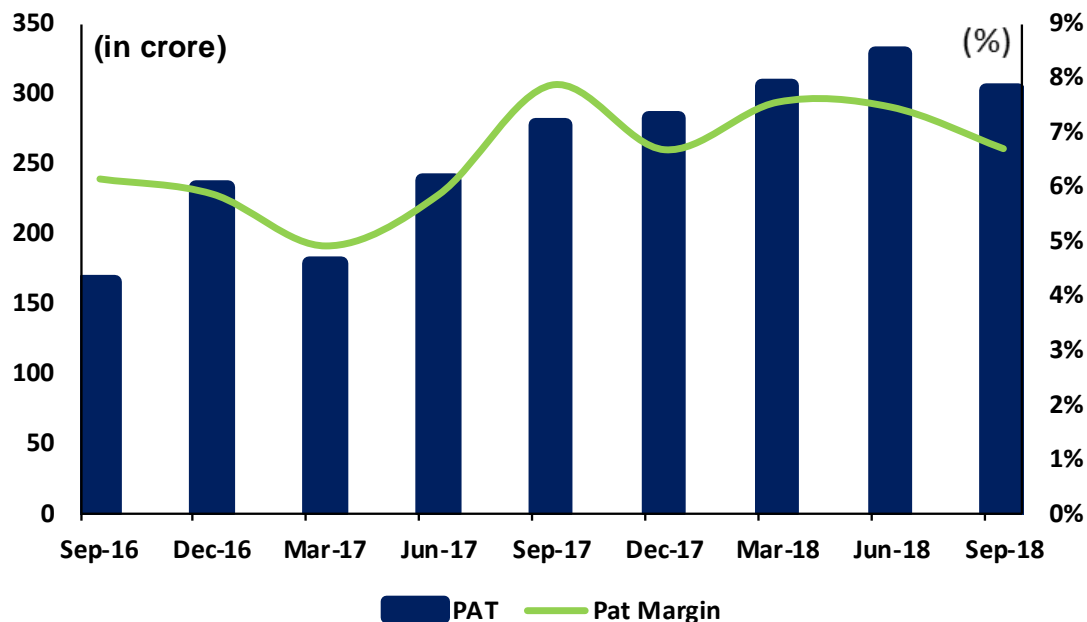
- Revenue increased 27.9% YoY from Rs 3,533 crore to Rs 4,522 crore (QoQ it increased 2.6% from Rs 4,078 crore).
- Revenue increased primarily due to better than expected performance of the mainstay jewellery business.
- As the festive season is on its ways the company expects a boost in performance.

EBITDA increases 28% YoY



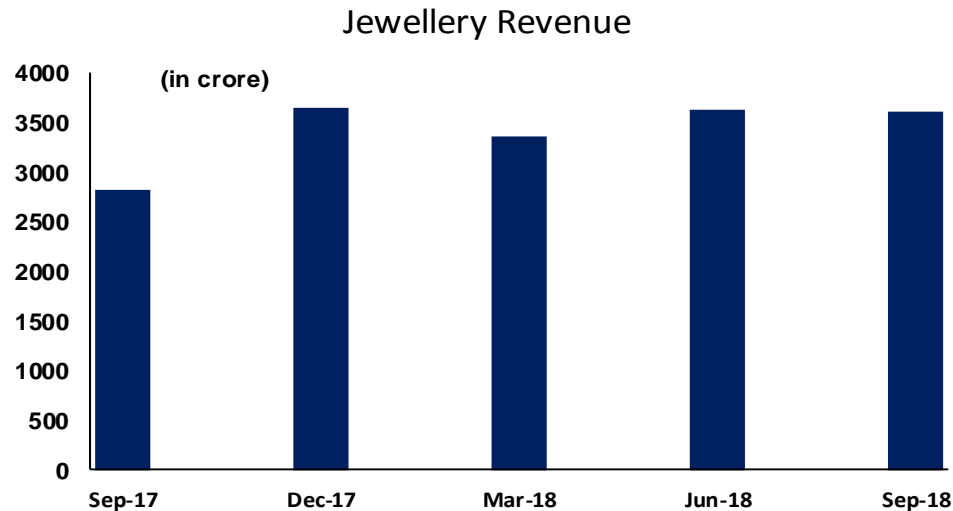
- The EBITDA increased 11.2% YoY from Rs 422 crore to Rs 469 crore (QoQ it decreased 2.9% from Rs 483 crore).
- EBITDA margins fell by 157bps from 11.94% in Q2FY18 to 10.37% in Q2FY19. Sequentially, it fell 59bps from 10.96 %.
- Margin performance was disappointing, though, and entirely on account of weaker than expected margin in the Jewellery business, notwithstanding the strong revenue traction; only part of the margin weakness was once-off .

PAT increases 9% YoY



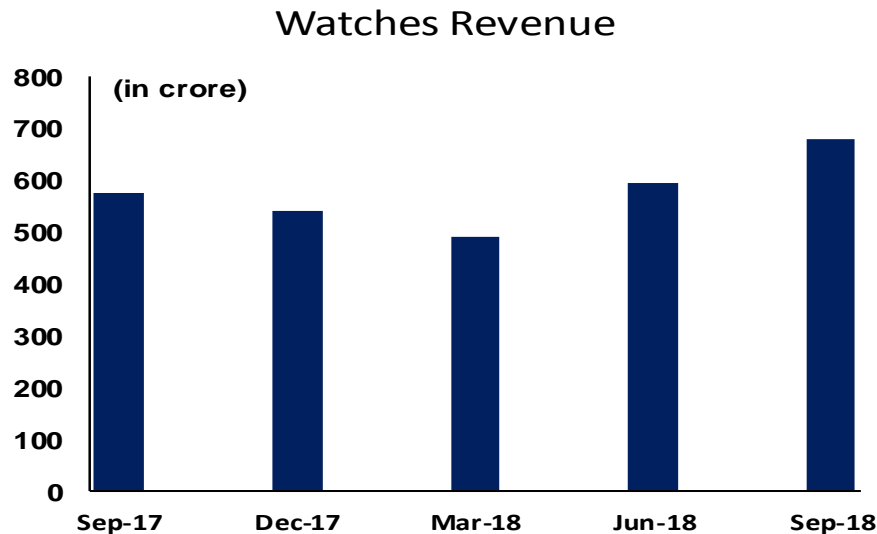
- PAT increased 9% YoY from Rs 278 crore in Q2FY18 to Rs 303 crore in Q2FY19 (QoQ it fell 8% from Rs 329 crore).
- PAT margins fell by 116bps YoY from 7.86% in Q2FY18 to 6.70% in Q2FY19(QoQ it fell 76bps from 7.46%).

Jewellery segment steals the show with 28% growth in income

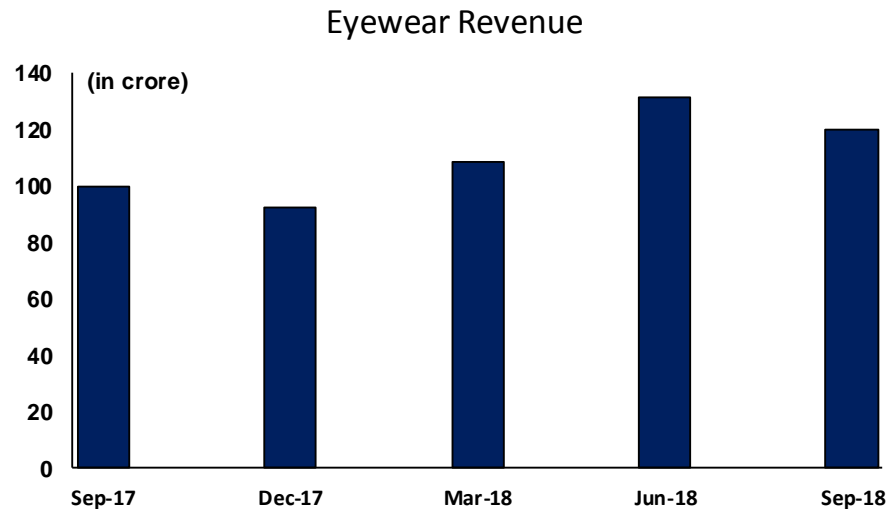


- Growth in the Jewellery division was very strong at 28% YoY from Rs 2,825 crore in Q2FY18 to Rs 3,615 crore in Q2FY19, but growth in profits was muted due to higher advertising spends. The gross margin was lower than the previous year as the plain jewellery segment grew much faster than the studded segment, leading to the studded ratio of only 35%, compared to 37% in the previous year.
- The division has taken over 2 large and profitable franchisee stores in Hyderabad through a win-win approach. The division has recognized Rs 15 crores as the franchisee compensation costs in this quarter.
- Golden Harvest scheme and the Gold exchange programmes continue to be major contributors to customer acquisitions.
- Tanishq added 14 stores in H1 FY'19, adding 35k square feet to Tanishq retail, on a net basis.

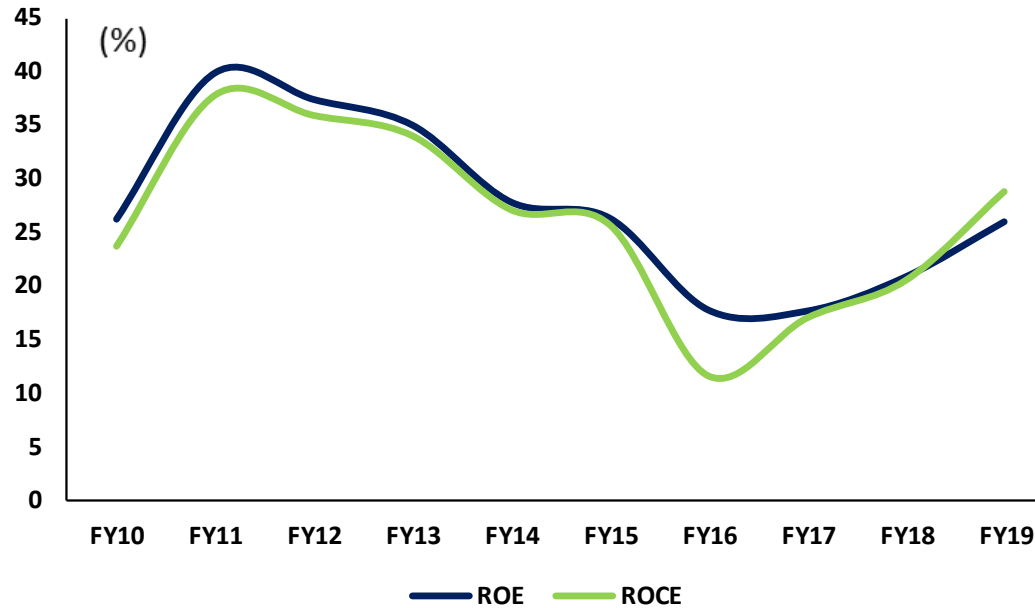
Watches segment grew 17% YoY



- Revenues grow by 17% YoY from Rs 578 crore in Q2FY18 to Rs 678 crore in Q2FY19 backed by a good top line growth and operating leverage playing out well with the cost optimisation programme it has been working for the past few years. With robust growth witnessed across all channels, the modern retail formats and e-commerce did exceptionally well.
- Strong top-line growth while keeping operational costs in check led to the good margins for the quarter.
- The division added 3 WOTs, 7 Fastrack and 2 Helios stores in H1, adding 1,800 sq feet, on a net basis.



- Revenues grew by 20% YoY from Rs 100 crore in Q2FY18 to Rs 120 crore in Q2FY19.
- The Titan Eye+ retail channel had a strong overall and like-to-like retail growth of 18% and 8%, respectively, led by the introduction of more assortments at affordable price points and associated aggressive marketing campaigns to build consumer awareness.
- 13 stores were added in H1 FY'19, adding 8,000 sq. ft of retail space, on a net basis.
- Commencement of Frames manufacturing and its distribution to trade channels in this year also aided the division's growth.



The ROE increased from 17.6% in FY17 to 20.8% in FY18 while the ROCE increased from 17% in FY17 to 20.5% in FY18. The ROE and ROCE are expected to increase to 25.96% and 28.8%, respectively, in FY19.

Income Statement

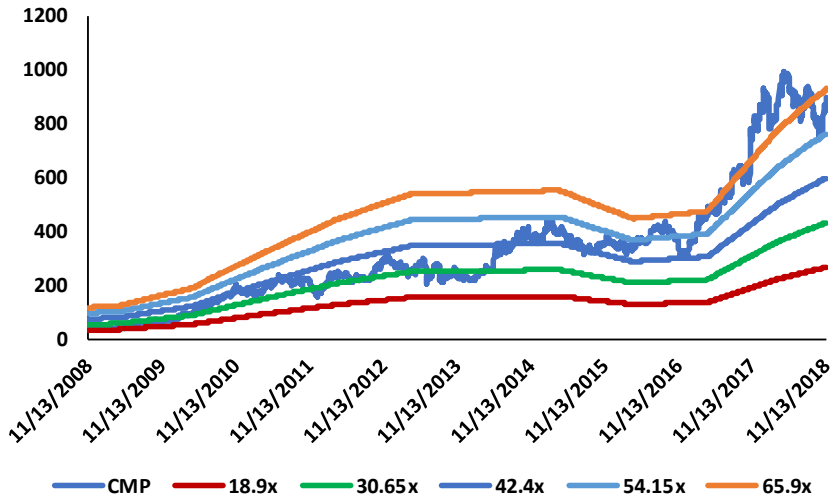
Particulars	Sep-17	Growth	Dec-17	Growth	Mar-18	Growth	Jun-18	Growth	Sep-18	Growth
Gross Sales	3,533.4		4,233.4		4,059.6		4,406.6		4,522.2	
Less: Excise Duty	0.0		0.0		0.0		0.0		0.0	
Net Sales	3,533.4	-13.4%	4,233.4	19.8%	4,059.6	-4.1%	4,406.6	8.5%	4,522.2	2.6%
Other operating income	48.8		51.4		47.7		44.6		45.1	
As a % of sales	1.4%		1.2%		1.2%		1.0%		1.0%	
Net Sales & Operating income	3,582.2		4,284.8		4,107.2		4,451.1		4,567.2	
Total Expenditure	3,160.3		3,852.4		3,671.8		3,968.2		4,098.3	
As a % of sales	89.4%		91.0%		90.4%		90.1%		90.6%	
PBIDT (Excl OI)	421.9	15.6%	432.4	2.5%	435.5	0.7%	483.0	10.9%	468.9	-2.9%
As a % of sales	11.9%		10.2%		10.7%		11.0%		10.4%	
Other Income	20.8		21.3		18.5		36.1		27.9	
As a % of sales	0.6%		0.5%		0.5%		0.8%		0.6%	
Operating Profit	442.7	12.6%	453.7	2.5%	453.9	0.0%	519.1	14.4%	496.8	-4.3%
As a % of sales	12.5%		10.7%		11.2%		11.8%		11.0%	
Interest	14.5		10.9		16.7		10.9		13.5	
As a % of sales	0.4%		0.3%		0.4%		0.2%		0.3%	
PBDT	428.2	14.9%	442.8	3.4%	437.2	-1.3%	508.2	16.2%	483.3	-4.9%
As a % of sales	12.1%		10.5%		10.8%		11.5%		10.7%	
Depreciation	31.0		34.9		36.0		40.7		42.8	
As a % of sales	0.9%		0.8%		0.9%		0.9%		0.9%	
PBT	397.2	15.8%	407.9	2.7%	401.3	-1.6%	467.5	16.5%	440.5	-5.8%
As a % of sales	11.2%		9.6%		9.9%		10.6%		9.7%	
Tax	118.9		115.9		89.3		138.8		137.7	
As a % of sales	3.4%		2.7%		2.2%		3.1%		3.0%	
Profit After Tax	277.6	16.3%	282.0	1.6%	306.3	8.6%	328.6	7.3%	302.8	-7.9%
As a % of sales	7.9%		6.7%		7.5%		7.5%		6.7%	

Balance Sheet

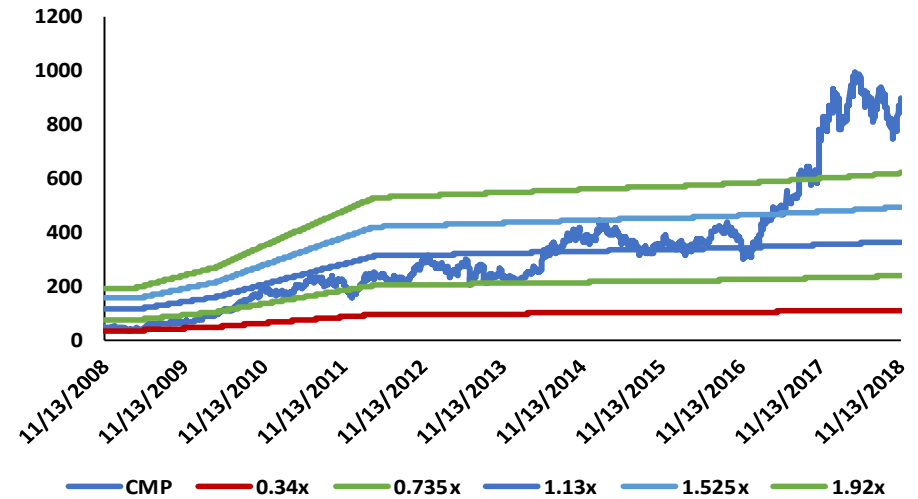
DESCRIPTION	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18
Gross Sales	10,969.00	11,949.33	11,310.02	13,382.13	16,155.95
Less: Excise Duty	35.92	34.13	21.33	121.30	36.18
Net Sales	10,933.08	11,915.20	11,288.69	13,260.83	16,119.77
Exenditure:					
Increase/Decrease in Stock	-110.72	205.86	-182.60	296.88	-1,030.05
Raw Material Consumed	8,151.28	8,955.86	8,372.17	9,821.14	12,664.83
Power & Fuel Cost	37.74	40.18	41.20	43.84	45.32
Employee Cost	540.43	632.46	696.28	787.47	885.08
Other Manufacturing Expenses	154.19	188.64	197.18	143.59	176.27
General and Administration Expenses	308.04	329.21	316.93	340.82	312.69
Selling and Distribution Expenses	522.28	497.82	568.82	870.99	969.65
Miscellaneous Expenses	279.82	326.70	356.76	395.55	451.30
Less: Expenses Capitalised	0.00	0.00	0.00	0.00	0.00
Total Expenditure	9,833.06	10,765.01	10,366.74	12,104.52	14,475.09
As a % of sales	90%	90%	92%	91%	90%
Operating Profit(Excl OI)	1,044.33	1,148.33	909.15	1,154.31	1,644.68
Operating Margin	10%	10%	8%	9%	10%
Other Income	120.22	70.75	99.51	71.67	88.67
Operating Profit	1,164.55	1,219.15	1,008.66	1,225.98	1,733.55
Interest	87.13	80.69	42.36	37.74	52.92
Exceptional Items	0.00	0.00	0.00	-102.69	-16.65
PBDT	1,077.42	1,138.46	966.30	1,085.55	1,663.98
Depreciation	67.55	89.57	98.19	110.53	131.53
PBT	1,009.87	1,048.87	868.11	975.02	1,532.45
Tax	275.12	232.64	191.59	275.97	427.87
Profit After Tax	734.75	816.25	676.52	699.05	1,104.68
Profit Margin	7%	7%	6%	5%	7%
Minority interest	0.00	0.00	0.00	14.19	28.18
Share of associate	0.19	0.01	-2.00	-1.77	-2.77
Net Profit (after Extrodinary Items)	734.94	816.26	674.52	711.47	1,130.09

1 year forward P/E & P/B Trends.

P/E



P/B





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